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**RRP:NEP 25088**

**ASIAN DEVELOPMENT BANK**

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**REPORT AND RECOMMENDATION**

**OF THE  
PRESIDENT**

**TO THE**

**BOARD OF DIRECTORS**

**ON A**

**PROPOSED LOAN AND TECHNICAL ASSISTANCE**

**TO THE**

**KINGDOM OF NEPAL**

**FOR THE**

**MICROCREDIT PROJECT FOR WOMEN**

**June 1993**

CURRENCY EQUIVALENTS  
(as of 15 May 1993)

Currency Unit	-	Nepalese Rupee (NRs)
NRs 1.00	-	\$0.020
\$1.00	-	NRs 49.46

- (i) The Nepalese rupee is pegged to the Indian rupee (Rs) at a rate of NRs 1.60 = Rs. 1.00.  
The Nepalese rupee is fully convertible on the trade account.
- (ii) For the purpose of calculations in this Report, the rate of \$1.00 = NRs 42.70 has been used, which was the rate generally prevailing during appraisal.

ABBREVIATIONS

ADB	Agricultural Development Bank of Nepal
BME	Benefit Monitoring and Evaluation
CAB	Central Advisory Board
CBU	Capital Build-up
CIDA	Canadian International Development Agency
FAO	Food and Agriculture Organization of the United Nations
FINNIDA	Finnish International Development Assistance Agency
FIRR	Financial Internal Rate of Return
GTZ	German Technical Assistance Agency
IFAD	International Fund for Agricultural Development
ILO	International Labor Organization
INGO	International NGO
IRD	Integrated Rural Development Project
MLD	Ministry of Local Development
MLSW	Ministry of Labor and Social Welfare
NBL	Nepal Bank Ltd.
NGO	Non-Governmental Organization
NRB	Nepal Rastra Bank (Central Bank of Nepal)
PCRW	Production Credit for Rural Women
PIC	Project Implementation Committee
RBB	Rastriya Banijya Bank
SBPP	Small Business Promotion Project
SFDP	Small Farmers Development Project
SHG	Self-Help Group
SWC	Social Welfare Council
TA	Technical Assistance
TMPC	Training Materials Production Center
TRUGA	Training for Rural Garment Activities
UNDP	United Nations Development Programme
UNFPA	United Nations Fund for Population Activities
UNICEF	United Nations Children's Fund
UNIFEM	United Nations Development Fund for Women
USAID	United States Agency for International Development
WDD	Women Development Division
WDO	Women Development Officer
WID	Women in Development
WTC	Women Training Center
WW	Women Worker

Notes

- (i) The fiscal year (FY) of the Government ends on 15 July.
- (ii) In this Report, "\$" refers to US dollars.

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**NEPAL**  
**MICROCREDIT PROJECT FOR WOMEN**

**LOAN AND PROJECT SUMMARY**

1. **Borrower** : Nepal
2. **The Project** : The proposed Project is designed to improve the socioeconomic status of women through provision of social preparation and skills training, institutional support to non-governmental organizations (NGOs) and provision of credit to women. The Project area will cover 12 districts and five towns in Nepal.
3. **Classification** : The primary objective of the Project will be women in development, with poverty reduction and human resource development as secondary objectives.
4. **Rationale** : Women in Nepal are among the poorest, yet they provide over half of the labor force in the agriculture sector. Although, during the last ten years, a number of externally financed projects have been implemented by the Government to address specific needs and constraints facing women, significant numbers of women have remained outside the benefit stream. Given the enormity of the physical and financial constraints facing the Government, it is unlikely that public sector services alone will ever be able to service the needs of significant proportions of society. It is therefore necessary and appropriate to try new ways of reaching women by promoting genuine and accelerated NGO participation in development. The Government has indicated its intention to develop a favorable climate for NGO development and to encourage private sector community development and credit support services by involving NGOs. The Project is designed to serve initially as a pilot program to develop alternative mechanisms for delivery and recovery of microcredit involving NGOs, and to ensure that proven strategies are subsequently introduced on a regional and national scale. This innovative approach is expected to have significant impacts on family income and employment creation among a large number of women.
5. **Objectives and Scope** : The overall goal of the Project is to improve the socioeconomic status of women in Nepal and promote their participation and integration in

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national development, thereby contributing towards poverty reduction. In order to contribute to this sectoral goal, the objective of the Project will be to improve income and employment of poor women in selected rural and urban areas. The main components of the Project are:

- (i) Group Formation and Training of Women Beneficiaries: (a) social preparation and skills training of women beneficiaries so as to equip them to undertake income-generating activities and small enterprises and/or to gain remunerative employment, and (b) rehabilitation and improvement of the existing Women Training Centers and the Training Materials Production Center to support staff and beneficiary training efforts.
- (ii) Institutional Support to NGOs, including surveys of NGOs; support for staff training; strengthening of management, accounting and reporting functions; and development of expertise to enable NGOs to act as effective financial intermediaries.
- (iii) Provision of Credit to Women, who have received appropriate skills training for agricultural production, micro-enterprises and small business creation.

- 6. Bank Financing :
  - (i) \$5.0 million from the Bank's Special Funds resources to finance the costs of credit and rehabilitation of training facilities; the loan carries a service charge of 1 per cent per annum and an amortization of 40 years including a grace period of 10 years;
  - (ii) \$0.9 million from the Japan Special Fund (JSF) to finance the costs of the group formation and training component on a grant basis
- 7. Other Source of Financing : \$2.0 million from the Government of Norway to finance the costs of institutional support to NGOs on a grant basis.
- 8. Period of Utilization : Until 30 June 2000

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9. Cost Estimates

(in \$'000)

Component	FX	LC	Total
1. Group Formation and Training	160	620	780
2. Rehabilitation of Training Facilities	430	530	960
3. Institutional Support to NGO	560	1,190	1,750
4. Provision of Credit	2,390	2,110	4,500
5. Incremental Administrative and Operating Cost	<u>110</u>	<u>840</u>	<u>950</u>
Total Base Cost	<u>3,650</u>	<u>5,290</u>	<u>8,940</u>
Physical Contingency	60	120	180
Price Escalation	100	360	460
Interest During Construction	<u>50</u>	<u>0</u>	<u>50</u>
Total Project Cost	<u>3,860</u>	<u>5,770</u>	<u>9,630</u>

10. Financing Plan

(in \$'000)

Source	FX	LC	Total	Percentage
Bank Loan	3,050	1,950	5,000	52
Bank Grant (JSF)	180	720	900	9
Norway Grant	630	1,370	2,000	21
Government	0	830	830	8
Participating Banks/ NGOs	0	450	450	5
Beneficiaries	<u>0</u>	<u>450</u>	<u>450</u>	<u>5</u>
Total	<u>3,860</u>	<u>5,770</u>	<u>9,630</u>	<u>100</u>

The proceeds of the Bank loan attributable to the noncredit components will be channeled to the Women Development Division (WDD) of the Ministry of Local Development (MLD) through regular budgetary transfers, while the proceeds of the Bank loan attributable to the credit component of the Project will be relent by the Government to

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participating banks (PBs) and participating NGOs at an annual interest rate of 6 per cent, with a repayment period not exceeding 15 years including a grace period of not more than 3 years. PBs and NGOs will onlend the proceeds of the loans, together with their own funds, to women beneficiaries at a minimum of 17 per cent per annum, which is the prevailing commercial bank lending rate in Nepal.

11. Executing Agencies

:

WDD under MLD will be the Executing Agency for the group formation and training of women beneficiaries and NGO institutional support components of the Project, while the Nepal Rastra Bank (Central Bank of Nepal or NRB) will be the Executing Agency for the credit component.

12. Implementation Arrangements :

WDD will be responsible for day-to-day management and implementation of the Project with NRB implementing the credit component. Selected NGOs will assist WDD in implementing the group formation and training of women beneficiaries. Beneficiaries will be given skills training in cooperation with Government line departments and other projects offering specific skills training. The Project will make available credit only to beneficiaries who have received appropriate skills training. Under the Project, there will be two mechanisms for credit delivery and recovery. In the first mechanism (called Model A), NRB will relend part of Bank loan proceeds to the participating banks (Rastriya Banijya Bank and Nepal Bank Ltd.), which will onlend directly to women beneficiaries. In the second mechanism (called Model B), NRB will relend a portion of the loan proceeds to NGOs for onlending to women beneficiaries where NGOs are willing and are experienced in fulfilling the financial services function. During the first three years of Project implementation, the Project will focus on strengthening NGOs and, with respect to credit, will use the PBs as financial intermediaries (Model A). After a comprehensive review of the Project at the end of the third year, the Government and the Bank will decide on whether to utilize Model B in addition to Model A. The strengthening of local NGOs will be carried out by the NGO Support Unit within WDD, comprising domestic and international consultants. The Project activities will be coordinated by the Project Implementation Committee (PIC) at the central level, and by the

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Women Development Officers of WDD at the district level. The PIC will be headed by a Project Director who is the Joint Secretary of MLD in-charge of WDD.

13. Procurement : Procurement of goods and services under the credit component will be done according to normal commercial procedures through direct purchase by the sub-borrowers. Equipment and vehicles required by the Project will be procured mainly on the basis of international shopping, and in some cases through direct purchase. The civil works related to the rehabilitation and improvement of the training centers will be carried out on the basis of local competitive bidding procedures acceptable to the Bank. The Bank's Guidelines for Procurement will be used in the procurement of civil works and equipment.
14. Consultant Services : Two groups of consultants will be required by the Project: (i) 132 person-months of consultant services from individual sources to assist WDD in the implementation of group formation and training of women beneficiaries. The cost of these consultant services will be financed from JSF on a grant basis; (ii) 156 person-months of consultant services from suitably qualified firms to assist WDD in the implementation of institutional support to NGO component. These consultant services will be financed by the Government of Norway on a grant basis. All the consultants will be engaged in accordance with the Bank's Guidelines on the Use of Consultants.
15. Estimated Project Completion Date : 31 December 1999
16. Project Benefits and Beneficiaries : About 20,000 women will be benefited from the skills training component, of whom 10,500 will receive agricultural production credit; 3,000, micro-enterprise credit; and about 300, small business formation credit. The other women beneficiaries are expected to rely on their own savings or to obtain credit from other sources. The Project will have a direct impact on developing effective systems to promote coordinated public/private sector services, which in turn will generate expanded production of foodgrains, vegetables and



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livestock products; and promote cottage and agro-industries production, and self-reliance among women. The new jobs created under the Project are estimated at 24,800 person-years. FIRR for typical subprojects range from 24 to 61 per cent.

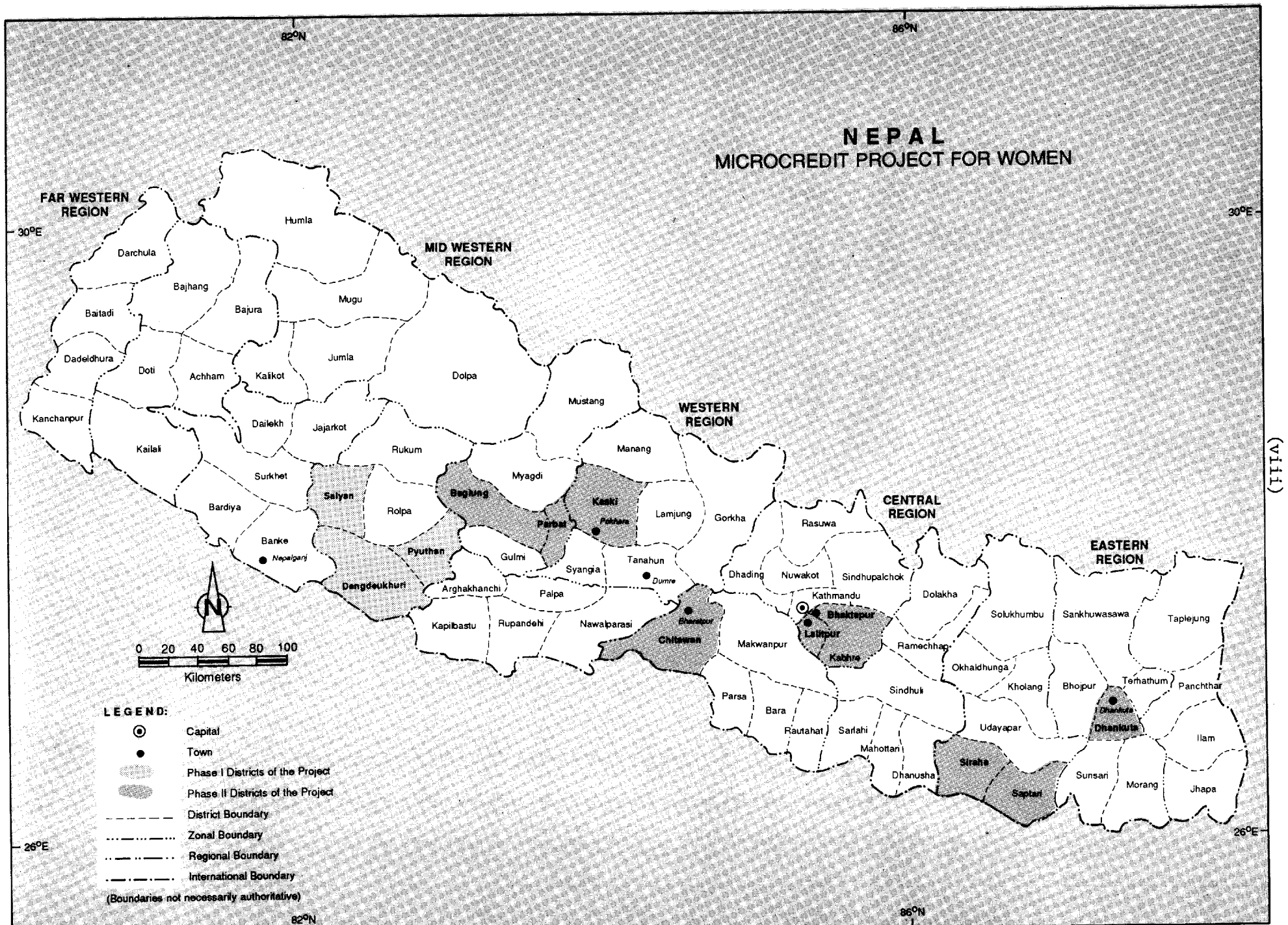
17. Technical Assistance

:

Technical Assistance (TA) for Group Formation and Training of Women Beneficiaries accompanies the proposed loan. This TA will be financed from JSF on a grant basis in the amount of \$0.9 million. The provision of skills training under the TA is closely linked to the provision of credit under the Project.

# NEPAL

## MICROCREDIT PROJECT FOR WOMEN



## **I. THE PROPOSAL**

1. I submit for your approval the following Report and Recommendation on (i) a proposed loan to the Kingdom of Nepal for the Microcredit Project for Women, (ii) proposed technical assistance (TA) for the Group Formation and Training of Women Beneficiaries, and (iii) proposed administration by the Bank of co-financing for the Microcredit Project for Women to be provided by the Government of Norway.

## **II. INTRODUCTION**

2. In January 1991 the Government of Nepal requested Bank financial assistance for implementing a women in development (WID) project as part of its overall strategy to reduce poverty and promote sustainable development in the country. In March 1991 the Bank sent a Reconnaissance Mission to assess the potential for a WID Project and to evaluate the implementation capacities of the agencies in charge of development of women. The Mission was assisted by two staff consultants, who continued the assessment until May 1991. Following the completion of the study, the Bank fielded a loan Fact-Finding Mission in June 1991 and a Follow-Up Mission in September-November 1991, which had detailed discussions with the Government, the various aid agencies and a number of non-government organizations (NGOs) with regard to the objectives, scope, financing plan and implementation arrangements of the proposed Project. After the priority of the Project was reconfirmed by the Government in early 1992, and at the request of the Government, a Bank Appraisal Mission<sup>1/</sup> visited Nepal from 22 March to 7 April 1992. After co-financing arrangements with the Norwegian Government had been firmed up by the Bank in October 1992, further consultations were carried out by the Appraisal Mission with the Government, the aid agencies, and NGOs during November 1992-February 1993 to improve the Project design and implementation. This Report is based on the Appraisal Mission's review of the various reports on WID and NGOs in Nepal, its findings in the field, and its discussions with Government officials and representatives of the external financing agencies and NGOs in Nepal.

## **III. BACKGROUND**

### **A. Women in Development**

#### **1. Rural Poverty**

3. In comparative terms, Nepal is one of the world's poorest countries. It ranks 117th in per capita gross national product (estimated at \$180 in 1989 US dollars) among 124 countries listed in the 1991 World Development Report (World Bank). A similar picture emerges from a comparison of other economic and social indicators as well. Nepal's infant mortality rate,

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<sup>1/</sup> The Mission consisted of D. Nangju (Senior Agronomist/Mission Chief), Y. Uehara (Project Specialist, WID), K. Tsubota (Project Economist), P. Daltrop (Counsel), Z. Rachman (Programs Officer), D. Baillie (Institutional Development Specialist/Staff Consultant) and F. Bennett (Microcredit Specialist/Staff Consultant). Representatives of the Norwegian Government and the United Nations Development Fund for Women (UNIFEM), who are expected to co-finance the Project, also participated in the Mission. A. Kaukinen (Project Specialist, SDU) assisted the Follow-up Appraisal Mission on a part-time basis.

for example, is the highest in the South Asian region and higher than the average for all low-income countries.

4. Poverty is both extreme and widespread in Nepal. There is an absolute shortage of food at both the household and national levels. Average per capita availability of food is only about 90 per cent of the minimum caloric requirement, and is much lower for those below the poverty line. Malnutrition is therefore widespread among women and children. While health services have improved significantly over the past two decades, most people still do not have access to organized medical care. About 40 per cent of the population is in absolute poverty, of which 48 per cent are in the Terai<sup>1/</sup> and 52 per cent in the Hills. About 94 per cent of the country's poor live in rural areas. The poor are overwhelmingly subsistence farmers. They generate about half their incomes from their own agricultural production, almost none of which is marketed. They earn less than 30 per cent of their income from employment, mostly on-farm, getting the remainder from miscellaneous subsistence activities.

5. The combination of very low average income levels and fairly uniform distribution of income suggests that the basic cause of poverty in Nepal is excessive population concentrated on an insufficient economic base, rather than an unequal distribution of available wealth. The high annual population growth of 2.7 per cent in 1971-1980, and 2.1 per cent in 1981-1990 has eroded the limited gains that have been made in gross domestic product (GDP) and food production. Continued and widespread poverty is primarily the result of insufficient growth in the economy, which is agriculture-based. Rural poverty is the outcome of an aggregate deficiency in productive resources, principally land. Net cultivated land represents only 20 per cent of land area, with very limited scope for expansion. Off-farm employment opportunities are severely limited and, therefore, an increasingly large number of people have to be absorbed by the agriculture sector. As a result, the size of average landholding of rural households continues to decline.

## 2. Socioeconomic Status of Women

6. Women in Nepal comprise about 48 per cent of the total population, of whom 35 per cent are economically active (National Planning Commission, 1981).<sup>2/</sup> Within the overall economy, more than 95 per cent of economically active females are engaged in agricultural work. Their life expectancy of 52 years is among the lowest in the world. Among the poor, women constitute the most disadvantaged persons in the society. Apart from sociocultural factors that have traditionally hindered the improvement of women's socioeconomic status, three major constraints may be identified: (i) limited access to education, (ii) limited access to productive resources, and (iii) scarcity of time to undertake remunerative work.

7. Women's limited access to education has been a major obstacle adversely influencing their economic participation and upward mobility. The female literacy rate of 12 per cent in Nepal (based on 1981 census) is one of the lowest in Asia. Girls constitute only about

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<sup>1/</sup> The Terai is an ecological zone located in the southern part of the country and is an extension of the Indo-Gangetic plain.

<sup>2/</sup> Conventional statistics often do not reflect women's actual contribution to the economy, particularly in indirect and nonmonetized forms.

35 per cent of the total enrollment at the primary level (6-10 years), 29 per cent in lower secondary (11-12 years) and 27 per cent at the upper secondary level (13-15 years).<sup>1/</sup> The majority of these pupils live in the urban areas. Their school drop-out rate is also very high, partly because of heavy involvement in domestic chores and routine farm work. Lack of basic education remains one of the principal causes of women's inaccessibility to new skills.

8. Women also lack access to productive resources. Since almost all property including houses, land, animals and equipment is inherited patrilineally, women cannot own property in their own names except daijo -- property given to a woman by her natal household at marriage -- and pewa -- anything given to a woman as personal property or anything bought from earning. Moreover, women's lack of assets also results in their limited access to information, modern technology and financial services, especially credit.

9. Women in Nepal are also among the most disadvantaged. Generally, they work considerably harder and longer than men and yet have only marginal control over the meager financial resources of the family. They carry out almost the entire load of domestic work including fetching water and carrying fuelwood. In addition, they provide about half of agricultural labor requirements. Overall, according to some estimates, a woman's work burden (at home and outside) is about 44 per cent greater than that of a man (10.8 hours as against 7.5 hours).<sup>2/</sup>

10. There is great variation in the practical application of these factors from one ethnic group to another. Nepalese people can be broadly categorized into Indo-Aryan and Tibeto-Burmen, but there are many other small ethnic groups in which the status and position of women vary considerably. Autonomy of women is highest among nondichotomous communities, where a value is placed on female entrepreneurship (craft production and sale, marketing and trading, etc.). In such communities, women contribute as much as 68 per cent of the local and expanded market economy and participate in major decision making at the household level. However, in dichotomous communities, female entrepreneurship and marketing activity are considered degrading, with the result that women are confined to the domestic sphere. Women's participation in the market economy remains closely correlated with their socioeconomic status.<sup>3/</sup>

11. However, a recent field survey<sup>3/</sup> shows that women, especially those who earn cash income, have been actively participating in decision making regarding various household matters. The survey also reveals that most women participating in various aid-assisted programs make the major household decisions concerning purchase of basic family needs such as food, clothing, education of the children, and provision of fodder requirements.

12. Despite the constraints affecting women's socioeconomic status, it has been well recognized that the promotion of women's cash income-earning abilities will potentially have a major impact on family well-being. This is because (i) women undertake a very large share of

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<sup>1/</sup> Ministry of Education and Culture, 1989.

<sup>2/</sup> Center for Economic Development and Administration, Nepal, The Status of Women in Nepal, 1981.

<sup>3/</sup> TA No. 5248-REG: Role of Women in Rural Industries, Final Report, 1988.

household agricultural production; (ii) they exercise considerable control and influence over what they perform and produce within the household economy; and (iii) as primary caretakers of households, women are major change agents in health, nutrition, sanitation and family planning. Experience reveals that some of the greatest impacts among the poor can be achieved by placing more income in the hands of women. Thus, a focus on women in the development process is seen to be especially important in relation to poverty reduction and is considered to be crucial in achieving overall viability of most development programs.<sup>1/</sup>

### 3. Constraints in the Delivery of Microcredit to the Poor

13. To improve the socioeconomic status of women, they must be provided with resources (e.g., credit) and services (e.g., skills training). At present, institutional credit to both men and women accounts for only about 20 per cent of total borrowing on average, the remainder coming from moneylenders, friends and relatives or other non-institutional sources. Less than 10 per cent of this institutional credit goes to the poor.

14. The Production Credit for Rural Women (PCRW) Program, launched by the Women Development Division under the Ministry of Local Development (MLD) in 1982, aims at improving the quality of life of rural women with per capita income below the poverty line. PCRW started as a small-scale credit program for women to engage in agricultural production and micro-enterprises, with provision of ancillary community development and skills training services; it has now been effectively linked with literacy improvement, community development, and maternal and child health care activities covering 35 districts. The program is presently financed by International Fund for Agricultural Development (IFAD), United Nations Children's Fund (UNICEF), Finnish International Development Assistance Agency (FINNIDA) and United Nations Fund for Population Activities (UNFPA). Under the program, the credit is provided by the Agricultural Development Bank of Nepal (ADBN) and the two Government-owned commercial banks, the Nepal Bank Ltd. (NBL) and Rastriya Banijya Bank (RBB). PCRW is a good model for improving the socioeconomic status of women, but loan disbursement under it has been slow, and the coverage of the program has been confined to a few villages in each of the program districts. To improve loan disbursements and to expand the coverage of the program in the districts, under the Eighth Five-Year Development Plan (1992/93 - 1997/98) the Government has decided to involve local NGOs in providing financial and support services.

15. Mechanisms for delivery of microcredit to the poor in Nepal are currently constrained by (i) high administrative and supervisory costs of servicing small loans in difficult terrain; (ii) poor recoveries; (iii) inadequate interest spreads to cover the high cost of delivery; (iv) the lack of qualified and motivated staff; (v) inappropriate modalities/systems; and (vi) time-consuming formalities and procedures, and resulting high borrower transaction costs. In spite of Government incentives and regulations, commercial banks are still hesitant to participate in the lending programs to priority sectors (e.g., agriculture). People below the poverty line, especially women, are not well served by the commercial banking system. The present modalities for delivery of credit to the poor, including women, are not effective.

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<sup>1/</sup> World Bank, Nepal: Poverty and Income, 1991.

16. Experience in Bangladesh, Philippines and Sri Lanka indicates that the problems of providing credit to women can be effectively addressed through NGOs as financial intermediaries. The grassroots nature of local NGOs ensures close contact with beneficiaries, which reduces borrower transaction costs and improves recovery. Local NGOs are generally noted for their low-cost operations because of their small overhead expenditure and nonprofit orientation. Thus, it would be appropriate to focus on the development of alternative mechanisms for delivery of financial services involving NGOs.

#### 4. Constraints and Potential of NGOs

17. Although national and international NGOs have been operating in Nepal since the early 1950s, they have recently, with Government encouragement, proliferated. The emergence of a democratic government in 1991 encouraged NGO activities at the grassroots as well as national levels. During 1984-1992, the number of national NGOs operating in Nepal in a formal capacity increased from 115 to 545. This number does not include around 200 NGOs that are not registered with the Social Service National Coordination Council (SSNCC), now called the Social Welfare Council (SWC). In terms of geographical distribution, about 63 per cent of NGOs are concentrated in the Central Development Region (about 40 per cent in Kathmandu alone), 13 per cent in the Western Region, 8 per cent in the Eastern Region, 4 per cent in the Mid-Western Region and 2 per cent in the Far Western Region.

18. During the same period, the number of international NGOs (INGOs) in Nepal increased from 5 to 70. INGOs have been operating assistance programs linked wherever feasible to district and village NGOs and/or established self-help groups. Largely because of the rigid controls previously placed on sociopolitical activities in rural areas, bilateral and multilateral agencies and INGO liaison activities were mostly confined to the capital. This has led to the formation of a strong Kathmandu-based group of about 50 nonprofit private research and development organizations (PRDOs)<sup>1/</sup> and professional NGOs (PNGO).<sup>2/</sup> Most of them operate area-specific village and district services and development programs where new concepts of integrated village and NGO cooperation are being developed. Specific target groups chosen by INGOs and national NGOs vary in accordance with actual services offered.

19. As most NGOs in Nepal have been in operation for a relatively short period, their small size and lack of efficient management and direction constitute their most critical constraints. At the district level, geographical isolation severely limits local NGO access to Kathmandu-based TA services and to INGOs and potential sources of financing.

20. The main strength of local NGOs in Nepal is that about 20 per cent of the formally established NGOs have been in operation for the last 10 years doing work similar to that required under the Project; they have already demonstrated the potential to expand their activities and services among the community as a whole provided they can be assisted in strengthening their managerial and operational competence. In addition, many financial self-

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<sup>1/</sup> PRDOs are organizations principally handling socioeconomic study programs.

<sup>2/</sup> PNGOs are organizations whose activities center almost entirely on the provision of beneficiary training and support services.

help groups of local origin exist in various parts of Nepal.<sup>1/</sup> They play important roles as local financial intermediaries by mobilizing savings and providing credit. They may greatly improve their performance if they establish linkages with banks for mutually beneficial business relations and are provided with TA for making them viable NGOs.<sup>2/</sup>

21. Although it is recognized that some NGOs are being established partly in an effort to tap the ever-increasing potential sources of external financing, an essential foundation of genuine NGOs is already in existence, and many more NGOs are capable of providing rural and urban assistance for grassroots level development. Further institutional strengthening support provided to NGOs at this stage will almost certainly act as a catalyst to accelerate their real involvement in community development.

## 5. Sector Institutions

22. The responsibility for WID in Nepal is at present divided between two line ministries: the Ministry of Labor and Social Welfare (MLSW) and MLD. Six other ministries (Health, Education and Culture, Agriculture, Forestry and Environment, Water Resources and Industry) also retain small Women Liaison Units, each staffed by a single officer. Both MLSW and MLD retained separate Women Development Divisions (WDDs) while MLD also operates Women Training Centers (WTCs) and a Training Materials Production Center (TMPC) within its Decentralization and Training Division.

23. The major functions of WDD/MLSW are to oversee national level policies and programs on WID, to collect and disseminate information and data on women, and to organize an interministerial coordination committee to discuss WID-related activities at the sectoral level. However, this arrangement is not functioning, as the present administrative system remains individual ministry-related and consequently does not foster close liaison.

24. The most important WID agency in Nepal is WDD/MLD, which was established in 1980 to initiate specialist programs for WID activities at the village and district levels. Its principal objectives and functions are (i) to coordinate with other line agencies and ministries at the district level to ensure that women's needs are adequately covered in all field service and development programs, and (ii) to formulate and implement effective policies and specialist programs for WID within individual districts. In practice, the Division is principally concerned with the implementation of community development activities and PCRW in 35 districts. There are, however, a number of other smaller programs operated by WDD in 14 other districts. These include participation in (i) minor women's program components of Integrated Rural Development Projects (IRDPs) in 11 districts; (ii) Enhancing the Agricultural Production Capacity of Rural Women Project supported by FAO in three districts; (iii) the development and

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<sup>1/</sup> Nepal Rastra Bank, Survey of Self-Help Groups, 1987.

<sup>2/</sup> This approach has been successfully applied under the Small Farmers Development Program being implemented by the Agricultural Development Bank (ADB) over the past 15 years with assistance first from UNDP/FAO, then IFAD and more recently the Bank [Loan No. 1037-NEP(SF) for \$30 million for the Third Small Farmers Development Project]. A variant of this approach is being adopted successfully under the ongoing Bank-financed Irrigation Sector Project [Loan No. 923-NEP(SF)].



management of village drinking water systems financed by bilateral agencies and international NGOs; (iv) liaison with women groups on maternal and child health and family planning programs, supported by UNICEF and UNFPA; and (v) a variety of other social service programs geared to awareness creation, functional literacy and leadership training.

25. WDD/MLD is expanding its network of services at the district and village levels. In March 1992, 49 districts were serviced by a field staff made up of both permanent and contract personnel. WDD Headquarters in Kathmandu maintains direct linkages with district staff on operational and policy-related matters. Women Development Officers (WDOs) at the district level are responsible for (i) supervising women workers (WWs) and other WDD staff in the field; (ii) coordinating with line departments and participating banks to provide technical support services, training and credit; (iii) assisting in design and implementation of community development districts; and (iv) reporting, monitoring and evaluating projects. The WDOs are supported by WWs at the village level, who maintain direct contact with the beneficiaries and remain at the village site. In each of the 49 districts, there are 1 WDO and 4-6 WWs. In some districts, the number of WWs has been increased to 6-13. WWs usually hold a school leaving certificate and are recruited from the same or a nearby district. They are responsible for health, family planning, child care programs, community development activities, income-generating activities, group formation, liaison with the banks involved in PCRW and supervision of local beneficiary training. In addition, they conduct household surveys to identify beneficiaries and targets for new initiatives in the expansion of the WID program.

26. The major constraints of WDD/MLD are: (i) most WDOs who are responsible for coordination of project activities are not located in the District Headquarters; (ii) field staff have excessive responsibility for project implementation and are not adequately supervised and guided by the staff at the central level; (iii) there are few staff at the village level, many of whom are hired on a temporary/contract basis; and (iv) most WDOs and WWs do not have transport. Because of these constraints, WID activities in the districts have remained in need of substantial expansion. However, during recent years, the Government has taken concrete measures to overcome the constraints (see para. 90).

## **B. Government Policies and Plans**

### **1. Poverty Reduction**

27. The focus of past development policies, plans, strategies and projects has been on economic growth. "Trickle-down" effects were implicitly assumed to help reduce poverty once growth gained some momentum but adequate growth did not materialize. Therefore, direct efforts to help the poor have increasingly featured in the formulation of the Government's development strategy. Poverty reduction was specified as a goal in itself in the Seventh Five-Year Development Plan (1985/86 -1990/91) and is included as one of the major objectives of the Eighth Plan. The Government has indicated that poverty reduction programs in the Eighth Plan will be devised and executed in a manner that will benefit the actual poor directly and indirectly. Policies to be adopted by the Government during the Eighth Plan period include (i) simple mechanisms to identify backward areas and poor families and to ensure conformity in the execution of sectoral programs, (ii) self-targeted and targeted programs for the poor, (iii) increased accessibility of the poor to productive resources, and (iv) employment creation in the non-agriculture sectors.

28. During the Eighth Plan period sectoral programs designed to reduce poverty include programs in health, education, family planning, irrigation development, community forestry, labor-intensive construction works, small farmers' development and PCRW. Additional institutional arrangements will be introduced to encourage private sector individuals and NGOs to implement poverty reduction programs.

## 2. Women in Development

29. The Government first adopted explicit policies to incorporate the role of women in development under the Sixth Five-Year Development Plan (1980/81-1985/86). More specific policy statements were also included in the Seventh Plan relating to the provision of additional extension/training programs for women in the agriculture sector, the expansion of literacy programs and the creation of additional employment opportunities in cottage industries.

30. Under the Eighth Plan, the Government's WID policies have been outlined. These include (i) equal and meaningful participation of women in the development process; (ii) raising employment opportunities for women in the economic and social sectors; (iii) expansion of women's access to credit, technical expertise, entrepreneurship training and market services; (iv) encouraging the appointment of women in the Government, semi-government and non-government sectors; and (v) reform of laws and by-laws that hinder the development of women.

31. In line with the Government's objectives to improve the socioeconomic conditions of the people in rural areas and to promote people's participation in rural development works, the Government will launch special programs for women and will encourage NGOs to engage in programs that will benefit specific target groups. During 1992-1997, the WID program will be expanded from 49 to 64 districts, about 7,900 women's credit groups will be formed to raise incomes through the provision of credit, about 40,000 families will benefit under the program, and the Local Development Training Program will be strengthened to provide training for both men and women.

## 3. Non-Governmental Organizations

32. The Government has already published its Eighth Plan emphasizing an increased role for the private sector and NGOs. The Government envisages an increased scope for the services of NGOs in operating flexible, innovative and low-cost development services at the local level. This will motivate self-help participation and help create sustainable village support for maintenance of essential services. Such assistance will enhance the principal aims of the Plan to enhance community participation, reduce poverty and promote balanced regional rural development.

33. To encourage genuine and accelerated NGO participation in development, the Government formulated the Social Welfare Act, which was approved by Parliament in October 1992. The Act seeks to simplify and better enforce NGO registration procedures, and to limit SWC powers to facilitating NGO/INGO/Government liaison, monitoring and evaluating development programs. However, since the Act does not include provision for regulating financial intermediation by NGOs, the Government has agreed to make the necessary legislative and/or regulatory changes to provide a more detailed framework to regulate the financial activities of NGOs. At the rural level, the Government has recently enacted legislation to ensure

that NGOs play a key role in planning and implementing village and area development activities assisted by the coordinated efforts of local administrative and elected officials.

#### 4. Credit Availability

34. From the mid-1980s Nepal has been implementing financial sector reforms aimed at increasing competition among financial institutions and financial instruments and at enlarging the role of market forces. The scope of the reforms, supported by TA from the International Monetary Fund, the World Bank and United Nations Development Programme (UNDP), was to remove controls on interest rates, improve financial instruments, strengthen financial institutions, promote indirect (non-administrative) instruments of monetary policy and improve surveillance of the banking system. The reforms have been successful in promoting financial intermediation and deepening the financial markets, as shown by the ratio of total liquidity of the banking system over GDP, which rose from 13 per cent in the mid-1970s to 34 per cent at the end of the 1980s.

35. During the Eighth Plan period, growth in internal credit will be confined to an annual 14.3 per cent, and the flow of banking sector credit to the private sector will be increased by an annual 22.1 per cent. Since ADBN and the two Government-owned commercial banks (NBL and RBB) have continued to have performance problems, the three banks will make special efforts to recover outstanding loans as well as to manage bad debts as a means to improve their collection rates. In addition, they have taken measures to (i) make necessary increases in their capital; (ii) close loss-incurring branches; (iii) reduce excess staff; (iv) improve credit processing, personnel development and management; and (v) stop provision of credit on Government guarantee. These measures are expected to improve their financial performance. The Government is fully committed to improving the performance of the three banks in channelling credit to the poor.

#### C. External Assistance to the Sector

36. Most foreign aid organizations working in Nepal have explicit policies to promote WID; many have been implementing programs and projects targeting women beneficiaries. These programs and projects are executed by WDD/MLD. This sectoral focus of current external assistance coincides with the WID priorities of the Government's Seventh and Eighth Plans.

37. Within the agriculture sector, income generation and employment creation for women have been the major thrust of a number of aid agencies in the past decade. Generally, assistance is provided as a package of services encompassing (i) training for social preparation and increased awareness; (ii) community development services and subsequent skills training; and (iii) financial support in the form of credit in projects such as PCRW supported by UNICEF, UNFPA, FINNIDA, and IFAD; the Third Small Farmers Development Project (SFDP III) supported by the Bank<sup>1/</sup>, and the IRDPs supported by the United States Agency for International Development (USAID), the Canadian International Development Agency (CIDA), the European

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<sup>1/</sup> Loan No. 1037-NEP(SF) for \$30 million, approved in October 1990.

Economic Communities (EEC), the Netherlands and German Technical Assistance Agency (GTZ) (see Appendix 1).

38. In the past, Bank assistance for WID in Nepal focused on indirect support to women beneficiaries through agriculture sector projects and, to some extent, social infrastructure projects in education and water supply. Recognizing that rural women lack access to extension services, improved technology and credit, attempts have been made to address directly the constraints facing women in developing their potential as agricultural producers. One of the earliest Bank-assisted WID programs was designed as part of the Seti Zone Integrated Rural Development Project,<sup>1/</sup> under which a WTC was constructed in Dipayal, in the Far Western Region. Under SFDP III, about \$3.3 million was allocated for the exclusive use of women for income-generating activities, while under the Upper Sagarmatha Agricultural Development Project,<sup>2/</sup> about \$0.5 million was allocated for promoting community development targetted to women beneficiaries. These projects are still under implementation.

#### **D. Lessons Learned**

39. In the preparation of the proposed Project, the Mission has incorporated lessons learned from the completed PCRW (Phase I) and Second Small Farmers Development Project (SFDP II) financed by other agencies (mainly UNICEF, UNFPA and IFAD). An impact evaluation study of PCRW (Phase I) was carried out in 1989,<sup>3/</sup> while the PCR of SFDP II<sup>4/</sup> was carried out by the Bank in 1992. The reports bring out the difficulty of implementing microcredit projects targetting poor women, although the repayment rate was high (more than 90 per cent) and there was a close linkage between income generating activities and social services/community development activities. Because of the rigidity of the participating banks and the weak implementation of the executing agency, the coverage of the projects in the districts was small. The lessons learned from these projects are: (i) the number of project components should be small and manageable; (ii) adequate numbers of field staff should be appointed and trained to supervise project activities; (iii) the WDOs and other field staff should not be overburdened with implementation responsibilities; (iv) field staff should be closely supervised by staff from the headquarters; and (v) savings mobilization should be made an integral part of the credit component to ensure that the beneficiaries will be able to repay their loans and achieve healthy, self-reliant enterprises.

40. The number of components under the proposed Project has been limited to three so that the problem of coordination among the implementing agencies is minimized. The districts included in the Project area have been carefully chosen to ensure that there is already an adequate number of trained field staff (both WDOs and WWs) deployed in them. The field staff will be provided with motorcycles or bicycles to improve their mobility. To reduce the workload of field staff of WDD/MLD, the Government has agreed to involve selected NGOs in

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<sup>1/</sup> Loan No. 748-NEP(SF), approved in October 1985.

<sup>2/</sup> Loan No. 1114-NEP(SF), approved in October 1991.

<sup>3/</sup> Center for Economic Development and Administration, Production Credit for Rural Women - An Impact Evaluation Study. Kathmandu, Nepal, 1989.

<sup>4/</sup> Project Completion Report of the Second Small Farmer Development Project (Loan No. 166-NE), July 1992.

Project implementation. The Government has also agreed to appoint additional experienced field officers as program officers to be based in Kathmandu; the program officers will supervise and provide technical support to field staff of WDD through regular and more frequent visits to the Project areas. The credit provision under the proposed Project will be linked to a savings mobilization program among the women beneficiaries.

#### **E. The Bank's Sectoral Strategy**

41. The principal strategic objective for Bank operations in Nepal is poverty reduction. This is consistent with the Government's own development strategy enunciated in the Eighth Plan. Income distribution in Nepal is fairly egalitarian. A major policy implication is that there is little scope for poverty reduction through income and asset redistribution. Therefore, the Bank's operational strategy in Nepal in the near-to-medium term will focus on poverty reduction through broad-based, labor-absorbing economic growth.<sup>1/</sup> Since agriculture is the backbone of the economy, accounting for over 55 per cent of GDP and 90 per cent of employment, this sector will need to receive substantial attention.

42. To enable the poor to take advantage of the employment and income opportunities deriving from growth, targeted efforts will be made to enhance the productivity of the poor and raise their incomes. Within these broad concerns, it is recognized that Nepalese women are among the poorest and most disadvantaged. The Bank, in keeping with the Government's poverty reduction strategies, will therefore continue to incorporate gender considerations in all relevant areas of its operations in Nepal.

#### **F. Policy Dialogue**

43. Policy dialogue during processing of the proposed Project focused on the specific roles of WDD/MLD in the WID program, and the increased and more varied involvement of NGOs in WID.

44. Since its inception in 1982, PCRW has achieved significant progress in reducing poverty and improving the quality of life of the low-income and socially disadvantaged rural women in 35 districts. However, the project has been confined to only a few villages in each of the districts, mainly because of the low number and heavy workload of WDD field staff. To intensify the coverage of the WID program and to reach more beneficiaries, the Government and the Mission agreed that the future roles of WDD will be confined to coordination, supervision and monitoring, while the implementation of Project activities will be gradually delegated to competent NGOs or subcontracted to other Government agencies or specialized training institutions or projects, although the prime responsibility for Project implementation will remain with WDD.

45. As part of the Government's policy to involve NGOs in national development, the Government and the Mission discussed the need to develop alternative mechanisms for delivery and recovery of microcredit involving NGOs. In this context, the Government has agreed to provide a more favorable environment for the development of NGOs in the country through the

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<sup>1/</sup> Bank's Operational Strategy in Nepal, January 1993.

reorientation of the role of SSNCC (now called SWC) and the adoption of policies and legislation for the promotion of the participation of NGOs in financial services including savings mobilization. In addition, institutional support to NGOs has been included in the scope of the Project to strengthen the financial, managerial, technical and implementation capacities of NGOs so that they will be able to assist the Government in implementing WID programs and other poverty reduction programs.

46. During the past 10 years, PCRW has been implemented by WDD mainly in the rural areas, since most of the poor live in those areas. However, considering the high literacy rate of women and the existence of pockets of poverty in the urban areas, and given the importance of urban areas as centers of cottage industry and business development, the Government agreed to expand PCRW to selected urban areas under the proposed Project.

#### **IV. THE PROJECT**

##### **A. Outline**

47. The proposed Project is designed to improve the socioeconomic status of women and promote their greater participation and integration in national development through consolidating and expanding related service and development systems. The Project area covers 12 districts and five towns that have a large number of women beneficiaries. Project assistance will focus on appropriate skills training and delivery of microcredit to women beneficiaries through a new credit infrastructure involving both commercial banks and efficiently managed NGOs. The Project will complement ongoing efforts to reduce poverty in both rural and urban areas, will create employment opportunities for women in the small-scale enterprise sector, and is expected to provide new and replicable models for doing this. The target beneficiaries of the Project will be mostly rural women who live below the poverty line<sup>1/</sup> but will also include a limited number of poor urban women and employees in the commercial sector. The Project is in line with the Bank's sectoral objectives and strategies designed to reduce poverty through the creation of self-employment and wage-employment, the enhancement of the role of women in development, and the strengthening and use of NGOs in Project implementation.<sup>2/</sup>

##### **B. Rationale**

48. Among the poor, Nepalese women constitute the most disadvantaged sector in the society, yet they provide over one half of the labor force in the agriculture sector. Past experience indicates that promotion of women's income-earning abilities has had a major impact on their participation in decision making regarding various household and agricultural matters. In addition, since women are also the primary caretakers of households, their increased skills and knowledge will be transferred effectively to other family members. Therefore, a project with

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<sup>1/</sup> The poverty line is defined by the National Planning Commission as the households who earn annual per capita income below NRs 2,500 in 1992 prices.

<sup>2/</sup> The Bank's Operational Manual No. 22 and 24, December 1986; and the Bank's Medium-Term Strategic Framework (1993-1996), February 1993.

its focus on women in the development process is especially important in relation to poverty reduction and is essential for achieving overall viability of most development programs.

49. To promote their income-earning abilities, it is essential that women be provided with resources in the form of credit and services in the form of awareness and skills training. During the last ten years, a number of externally financed projects have been implemented by the Government to address specific needs and constraints facing women, and to strengthen the public sector institutions responsible for meeting their service and development needs. Although notable progress has been achieved by such projects in the introduction of essential community development and income-generating activities for rural women, a significant number of women have remained outside the benefit stream. The major constraints affecting the WID program are the physical and financial limitations of the Government institutions in-charge of WID programs and the existing ineffective modalities for delivery of credit to the poor involving the commercial banks. It is therefore necessary and appropriate to try new ways of reaching the women.

50. During the past few years, there has been a slow but significant build-up of NGO activities in Nepal at the village and district levels. Many NGOs have shown willingness to orient their objectives and programs to serve women provided they are given financial and institutional support. Experience elsewhere in Asia and to a limited extent in Nepal itself has indicated that local NGOs can gradually develop the potential to complement Government efforts to promote community development programs and to expand savings and credit services to the public. The Government has indicated its willingness to encourage private sector community development and credit support services by involving NGOs, and to develop a favorable climate for NGO development.

51. In view of the above considerations, the Project has been designed to serve initially as a pilot program to develop alternative mechanisms for delivery and recovery of microcredit involving NGOs, and to ensure that proven strategies are subsequently introduced on a regional and national scale. The districts and towns included in the Project area have been selected to ensure that there are a large number of poor women and that the NGOs, commercial banks and WDD staff are available to provide credit and other services under the Project. Institutional support will be provided to NGOs so that they will be able to deliver credit and other services to women beneficiaries. In designing the Project, the Mission carried out extensive consultations with the Government, aid agencies, a number of potential participating NGOs and intended beneficiaries.<sup>1/</sup>

### C. Objectives

52. The overall goal of the Project will be to assist the Government in the improvement and enhancement of the socioeconomic status of women and promote their greater participation and integration in national development, thereby contributing towards

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<sup>1/</sup> During and after the loan fact-finding and loan appraisal stages, extensive consultation meetings with the Government, aid agencies and NGOs combined with field trips and discussions with potential beneficiaries were undertaken to enable the Mission to design a project that will be workable under the conditions prevailing in the Project area.

poverty reduction in Nepal. In order to contribute to the sectoral goal, the objective of the Project will be to improve the income and employment of poor women in selected rural and urban areas.

53. The Project covers 12 districts<sup>1/</sup> and five towns<sup>2/</sup> in Nepal (see Map). The districts and towns have been selected on the basis of the following criteria: (i) a large number of women beneficiaries; (ii) the deployment of one WDO and at least five WWs in each of the Project districts; (iii) the presence of NGOs and the participating banks, which can be linked with the delivery of credit and other services under the Project; (iv) existing or planned activities of other aid agencies, particularly USAID, UNICEF, UNFPA, UNDP/International Labor Organization (ILO) [Training for Rural Gainful Activities (TRUGA)], and GTZ [Small Business Promotion Project (SBPP)] which will complement and enhance Project benefits (see paras. 62-65); and (v) relative accessibility of the areas, which will facilitate Project implementation, monitoring and evaluation. The selection of the districts and towns has also taken into account the ongoing activities of SFDP III to maximize complementarity while avoiding duplication.

#### **D. Scope**

54. To achieve the objective, the scope of the Project will include the following components:

- (i) group formation and training of women beneficiaries including rehabilitation and improvement of existing training facilities to support both staff and beneficiary training activities under the Project;
- (ii) institutional support to selected NGOs to enable them to expand the delivery of community development and savings mobilization services to Project beneficiaries; and
- (iii) provision of credit to women beneficiaries who have been provided with skills training under the Project or from other programs for viable income-generating activities.

#### **1. Project Components**

##### **(a) Group Formation and Training of Women Beneficiaries**

55. The Project will provide support to WDD/MLD for carrying out social preparation and training of women beneficiaries. Women beneficiaries in the Project area will be mobilized and organized into stable self-help groups that will be used as focal points for access to public and private sector services. This will be followed by training to prepare them to undertake viable income-generating activities. Women beneficiaries who have been organized into self-help groups will be given appropriate skills training in crop production, livestock production, cottage

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<sup>1/</sup> Dang, Pyuthan, Salyan, Kaski, Parbat, Baglung, Bhaktapur, Lalitpur, Chitwan, Dhankuta, Saptari and Siraha.

<sup>2/</sup> Kathmandu, Pokhara/Dumre, Nepalganj, Bhaktapur and Dhankuta.



industry or small business. Consultants will be required to assist WDD in implementing; supervising and coordinating the training activities; in carrying out inventories of training facilities and courses offered by the Government, international and national NGOs, and multilateral and bilateral agencies; and in preparing appropriate training manuals for specific courses.

56. To support staff and beneficiary training efforts, the Project will provide funds to rehabilitate the existing MLD's Women Training Centers located in the Project area (e.g., Kathmandu, Pokhara, and Dhankuta) and construct additional classrooms and hostel services where appropriate, install improved water supply systems, and procure suitable training equipment and furniture. In addition, the Project will also improve and refurbish the Training Materials Production Center (TMPC) in Kathmandu. The improvements to the TMPC will include the rehabilitation of the existing physical facilities and procurement of appropriate printing equipment. The TMPC will be used to publish all training materials required by the Project.

(b) Institutional Support to NGOs

57. The Project will provide support to (i) carry out detailed surveys of NGOs in the Project area; (ii) prepare needs analyses of viable self-help groups (SHGs) and NGOs that are interested in working for the Project; and (iii) strengthen the self-management and accounting, planning and implementation capacities of selected NGOs. Subsequently, the selected NGOs will be assisted in introducing credit-related services initially as agents of participating commercial banks, and later as direct financial intermediaries.

58. The selected NGOs will be provided with support for staff training, minimal incremental office furniture and equipment needs, and funds to cover part of their operating and maintenance costs. NGOs, that have been sufficiently strengthened will subsequently be engaged to carry out in-field services including group formation, training of beneficiaries, savings mobilization, and group activity planning and operation. These NGOs will receive further staff training and supervisory support in conjunction with participating commercial bank field staff to enable them to act as credit agents, and later as financial intermediaries.

59. Exchange programs between key NGO staff in Nepal and those in other developing countries where grassroot development activities and financial service programs are successfully operating will be organized under the Project to assist the NGOs in Nepal to adopt successful concepts and develop appropriate expertise. The participants in the exchange programs will also include officials from WDD, the Nepal Rastra Bank (NRB) and the participating banks.

(c) Provision of Credit to Women

60. The Project will make available credit for on-farm and non-farm income-generating activities. Such activities will include crop, livestock and vegetable production, where women are demonstrably the primary decision makers and the principal beneficiaries of the income generated, and any eligible enterprise in the agroprocessing, manufacturing, trade, transport and service sectors in areas not presently serviced by existing credit schemes. Credit will be provided for fixed investment and/or working capital purposes to women beneficiaries, as individual or group loans secured by joint liability of the members of the group, since most women in Nepal have no control over the assets of the family that can be used as collateral.

61. The Project will make available credit to women beneficiaries who have been organized into stable SHGs and have received appropriate skills training under this or similar projects. Credit will be supplied for the following purposes:

- (i) Agricultural Production Credit. A medium-term loan of up to NRs 30,000 would be made to sub-borrowers who have completed the requisite training in foodgrain, livestock or vegetable production, with a repayment period of up to seven years on the security of group savings linked to group guarantees;
- (ii) Micro-enterprise Credit. Women beneficiaries who have been trained in various skills using TRUGA facilities and methodologies (see para. 65) will become eligible for subloans for income generation subprojects of their choice, related to their skills and resources. Based on the credit requirement of the micro-enterprises, the women will be able to apply for a medium-term loan of up to NRs 40,000 with a repayment period of up to seven years on the security of group savings and/or group guarantees; and
- (iii) Small Business Credit in Urban Areas. Following the successful completion of their training under the SBPP (see para. 65), women beneficiaries will become eligible to borrow for subprojects of their choice, related to their skills and resources. Subloans under this component would be NRs 50,000-250,000 per sub-borrower, repayable over a period of up to seven years on the security of individual savings and group guarantees or other adequate collateral. Applications for enterprise subloans will require full feasibility analysis.

## 2. Complementary Projects and Programs

62. The scope of the Project complements the related activities assisted by other aid agencies. The United Nations Development Fund for Women (UNIFEM) has agreed to provide a TA for Benefit Monitoring and Evaluation (BME) to WDD. The scope of the TA will include (i) a review of the various BME systems currently set up under WDD; (ii) integration of the systems into a unified management information system, which will effectively monitor changes in women's well-being brought about by the Project and other projects implemented by WDD; (iii) a benchmark survey in Project districts to collect socioeconomic information on beneficiaries; and (iv) processing of documentation, monitoring, evaluation and impact assessment of the Project on a regular basis. The total cost of the TA is estimated at \$200,000 which UNIFEM has agreed to finance on a grant basis. The TA will be processed by UNIFEM on a parallel basis. In addition, UNIFEM has also indicated its agreement to finance a TA for Mainstreaming Gender Considerations into National Development, which will examine the structural obstacles to women's full participation in national development and recommend to the Government appropriate corrective measures in policy, institutional responsibilities and the legal framework. The total cost of the second TA is estimated at \$100,000, which will be financed by UNIFEM on a grant basis. This TA will also be processed by UNIFEM on a parallel basis. The two TAs will support the overall objectives of the Project.

63. The USAID-assisted Rapti Development Project is operating in five districts in the Mid-Western Development Region during its second phase (1987-1995). Five major programs are being implemented: agriculture, natural resources restoration and protection, employment and skills development, infrastructure development and institutional development. Three of the five districts (viz., Dang, Salyan, Pyuthan) have been included under the Project. Selection of these districts has been carried out in close consultation with USAID-Nepal with a view to maximizing benefits accrued as a result of complementarity between the training and credit activities under the Project and the social, community and skills activities supported by USAID.

64. Under the ongoing PCRW, UNICEF and UNFPA have been providing support to the Government's adult education, family planning, maternal and child health, and community development programs in 24 districts. For 1992-1997, UNICEF and UNFPA have approved the expansion of their programs to another 20 districts including nine districts covered by the proposed Project. The Project area has been selected to ensure that the training and credit activities under the Project will complement the social services and community development activities to be supported by UNICEF and UNFPA.

65. The ongoing TRUGA financed by UNDP is a vocational training method developed by ILO to promote non-agricultural employment and income-generating activities for the rural poor. The third phase of TRUGA<sup>1/</sup> (1993-1998) covers all the districts in Nepal. The ongoing SBPP supported by GTZ has also provided training of entrepreneurs in seven urban areas since 1983. The facilities and methodologies developed by these two projects will be utilized in the training of women beneficiaries under the proposed Project. The Project will extend its credit assistance to trainees of these two projects.

#### **E. Cost Estimates**

66. The total Project cost, including physical contingencies, price escalation and service charge on the Bank loan during construction, is estimated at \$9.6 million, consisting of \$3.9 million in foreign exchange and \$5.7 million equivalent in local currency. A summary of the Project cost is presented in Table 1 (see Appendix 2). The cost estimates are based on current 1993 prices.

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<sup>1/</sup> The third phase of TRUGA has been renamed by the Government as Training for Rural Employment Project (TREP).

**Table 1: Project Cost Summary**  
(\$'000)

Component	FX	LC	Total
1. Group Formation and Training	160	620	780
2. Rehabilitation of Training Facilities	430	530	960
3. Institutional Support to NGO	560	1,190	1,750
4. Provision of Credit	2,390	2,110	4,500
5. Incremental Administrative and Operating Cost	<u>110</u>	<u>840</u>	<u>950</u>
Total Base Cost	<u>3,650</u>	<u>5,290</u>	<u>8,940</u>
Physical Contingency <sup>a/</sup>	60	120	180
Price Escalation <sup>b/</sup>		100	460
Interest During Construction	<u>50</u>	<u>0</u>	<u>50</u>
Total Project Cost	<u>3,860</u>	<u>5,770</u>	<u>9,630</u>

<sup>a/</sup> Physical contingencies: 5% on vehicles and equipment, and 10% on civil works.

<sup>b/</sup> Price escalation factor of 3.7% is applied to both foreign and local costs for the entire duration of Project implementation.

#### **F. Financing Plan**

67. The Government has requested a loan in Special Drawing Rights from the Bank's Special Funds resources in an amount equivalent to \$5.0 million to finance the equivalent of \$3.0 million in foreign exchange costs and the equivalent of \$2.0 million in local currency costs. The Bank loan would be made to the Kingdom of Nepal on the standard terms and conditions applicable to loans made by the Bank from its Special Funds resources. The loan will finance 52 per cent of the total Project cost, mainly to cover the costs of credit and the rehabilitation of WTCs and TMPC. However, in the event that the Government is able to obtain grant funding for the rehabilitation of WTCs and TMPC, the loan amount allocated to this component (approximately \$1.0 million) would be reallocated or cancelled.

68. An amount equivalent to \$900,000 will be financed by the Bank on a grant basis from the Japan Special Fund to meet the costs of group formation and training. The Government of Norway has approved a grant in an amount equivalent to \$2 million to finance the cost of the NGO institutional support component of the Project. The rest of the Project cost (amounting to \$1.7 million equivalent) will be met by the Government (\$0.8 million), the participating banks and NGOs (\$0.45 million) and the beneficiaries (\$0.45 million). The Government's contribution of \$0.8 million will include in-kind contributions of approximately \$0.5 million, mainly in the form of provision of Project staff and training facilities. The financing plan for the Project is summarized in Table 2 (see Appendix 2 for details).

**Table 2: Financing Plan**  
(\$'000)

Source	FX	LC	Total	Percentage
Bank Loan	3,050	1,950	5,000	52
Bank Grant (JSF)	180	720	900	9
Norway Grant	630	1,370	2,000	21
Government	0	830	830	8
Participating Banks/ NGOs	0	450	450	5
Beneficiaries	<u>0</u>	<u>450</u>	<u>450</u>	<u>5</u>
Total	<u>3,860</u>	<u>5,770</u>	<u>9,630</u>	<u>100</u>

## **G. Implementation Arrangements**

### **1. Project Management and Organization**

69. There are two Executing Agencies for the Project. These are WDD under MLD, which will be the Executing Agency for the components covering group formation and training of women beneficiaries and institutional support to NGOs, and NRB (the Central Bank of Nepal) which will be the Executing Agency for the credit component. WDD will be responsible for day-to-day management and implementation of the Project including responsibility for reporting and BME (see details in Appendix 3). Following the PCRW model, which has been developed by WDD, women beneficiaries will be identified through household surveys conducted in selected villages in the Project area which will be carried out by the field staff of WDD comprising WDOs and WWs. The women will then be mobilized and organized by WDD staff into stable SHGs, which will be used as focal points for access to public and private sector services. The groups will undergo a series of training courses to promote awareness and achievable development aims, leadership development, group dynamics and potential socioeconomic development, which will prepare the women beneficiaries to undertake viable income generating activities. This social preparation, based on the PCRW model, will be given by WDD field staff or other trainers who have been trained under PCRW and under the Project. Beneficiary needs assessment will be made by WDD field staff through a participatory process so that feedback from beneficiaries will be fully reflected in the design of a package of assistance, which may comprise social services (e.g., adult literary classes, family planning and maternal and child health care) and skills and management training for income generation. Following the social preparation work, women beneficiaries will be given appropriate skills training based on a thorough assessment of their needs, availability of raw materials and other inputs, and markets for the products or services. Training courses for beneficiaries will be undertaken either in the training centers or in rented buildings at the village level in the Project area.

70. Skills training to be provided to women beneficiaries under the Project will be subcontracted by WDD to specialized training institutions or projects such as district training centers operated by the Department of Agricultural Development, TRUGA project and SBPP.

71. While WDD is implementing the group formation and training of beneficiaries, there will be a parallel activity to strengthen the management, accounting, planning and implementation capacities of selected NGOs. The Project will also support the development of grassroots organizations including SHGs to become viable NGOs. The strengthening of local NGOs will be carried by the NGO Support Unit<sup>1/</sup> in three stages. Following the identification of NGOs and SHGs through detailed surveys of NGOs in the Project area, NGOs will be selected on the basis of agreed upon criteria (see Appendix 3) and given training to assist WDD in social preparation and the provision of planning support and development services to women beneficiaries (Stage I). Subsequently (Stage II), it is anticipated that a number of the better working NGOs will be selected to act as agents for participating banks' financial services in channelling financial services. These NGOs will be provided training in subproject appraisal, financial analysis and loan performance monitoring. Eventually, during Stage III, some of the Stage II NGOs will be selected on the basis of strict eligibility criteria to provide direct credit to sub-borrowers. The selected NGOs that have received appropriate training will actively participate in Project implementation as catalysts and intermediaries, with the ultimate objectives of reducing the workload of WDD field staff in Project implementation and expanding the coverage of the Project to other villages within a given district.

72. After the beneficiaries have received skills training under the Project or similar projects, WDD field staff will help them to obtain microcredit from the participating banks (PBs) which include RBB and NBL. However, the role of WDD in the preparation of credit applications, and credit supervision and coordination will be gradually taken over by NGOs, as there are well trained Stage II NGOs capable of acting as credit agents for the PBs. In this way, NGOs will gain experience in financial services, which will help them to qualify as future direct financial intermediaries. Thus, under the Project there will be two mechanisms for credit delivery and recovery. In the first mechanism (called Model A), NRB will relend a part of Bank loan proceeds to the PBs, which will onlend directly to sub-borrowers (women beneficiaries). In the second mechanism (called Model B), NRB will relend a portion of the loan proceeds to NGOs for onlending to sub-borrowers where NGOs are willing and are experienced in fulfilling the financial services function. However, since most NGOs in Nepal are at present in the nascent stage, during the first three years of implementation, the Project will focus on strengthening NGOs, and with respect to credit, will use the PBs as financial intermediaries in accord with the existing PCRW model (Model A). At the end of the third year, a comprehensive mid-term review will be carried out of the progress of the Project, the development of the Borrower's policy on promotion and regulation of NGOs' activities, and the capacity of NGOs to act as financial intermediaries – based on which the Government and the Bank will decide whether to utilize NGOs as financial intermediaries under Model B, in addition to Model A. This staged approach will minimize the risks of involving NGOs in the delivery and recovery of microcredit to women beneficiaries, since Model B will be used under the Project only if the results of the mid-term review are satisfactory.

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<sup>1/</sup> The NGO Support Unit comprising domestic and international consultants will be established within WDD as an autonomous team under the guidance of the Project Director.

73. The Project activities at the village level will be jointly carried out by WWs and local NGOs, while the activities in the urban areas (towns) will be implemented mainly by NGOs using support services offered by the Executive Officers of municipalities under MLD and SBPP. The activities will be coordinated at two levels. At the central level, the Government will establish a Project Implementation Committee (PIC) to ensure centralized leadership and close coordination among Project entities. The establishment of the PIC will be a condition for loan effectiveness. The PIC will be chaired by the Joint Secretary of MLD in charge of WDD, who will serve as Project Director, and will comprise the WDD Undersecretary, the Chief Manager of the Development Finance Department of NRB, the Team Leader of the NGO Support Unit and representatives of the PBs. At the district level, WDO will coordinate the Project activities with the District Development Committee, other Government agencies and the NGOs. Within a district, WDOs will coordinate Project activities in both villages and urban areas. The Government will appoint the Undersecretary of WDD as Project Manager, who will be responsible for day-to-day implementation and management of the Project. He will be assisted by several program officers, who will work for the Project on a full-time basis. The existing WDD Central Advisory Board chaired by the Secretary of MLD will provide policy guidance for the Project.

## 2. Financing Arrangements

74. The proceeds of the Bank loan attributable to the noncredit component will be channelled to WDD through regular budgetary transfers, while the proceeds of the Bank loan attributable to the credit component of the Project will be relented by NRB to PBs and participating NGOs. The Bank's loan will finance up to 80 per cent of the total cost of each subproject. The PBs or NGOs will provide 10 per cent and the beneficiaries another 10 per cent either in cash, kind or in labor. However, the contribution of NGOs toward the cost of subprojects will be reduced to a minimum of 5 per cent if the local NGOs have inadequate financial resources to provide the required 10 per cent of the total cost of subprojects. It is anticipated that, during the first three years of Project implementation, Bank loan proceeds will be relented to PBs, which will include RBB and NBL under Model A. Other banks<sup>1/</sup> as approved by the Government and the Bank may be invited to participate if this proves advantageous with respect to increased disbursement rate, geographical accessibility or beneficiary preference. NGOs and WDD staff will assist in mobilizing beneficiaries to borrow from the PBs by assisting them in preparing subloan applications and by carrying out credit supervision activities. In the latter part of Project implementation, these proceeds will also be lent to duly selected and accredited NGOs under Model B in the event that Model B is adopted by the Government and the Bank after completion of the Mid-Term Review of the Project.

75. The Government and NRB will enter into a suitable administrative arrangement to regulate the terms upon which NRB, as the agent of the Government, will relent the proceeds of the Bank Loan attributable to the credit component. NRB will enter into financing agreements with the PBs and with selected and accredited NGOs. Subsidiary loans will be made on the basis of an acceptable pipeline of subprojects, and will bear an annual interest

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<sup>1/</sup> These banks may include the Eastern Rural Development Bank and Far Western Rural Development Bank which will be established by the Government in July 1993.

rate of 6 per cent. Repayment periods will vary depending on the nature of the subprojects to be financed, but will not exceed 15 years, inclusive of a grace period of not more than 3 years. As the repayment periods of the subsidiary loans from PBs/NGOs to NRB will exceed in most cases those of the subloans, PBs/NGOs are expected to recycle the repayments made by beneficiaries either in support of other sub-borrowers or for repeat loans.

76. The financing agreements will specify that the PBs and NGOs will onlend the proceeds of the loans, together with their own funds, to beneficiaries at a minimum of 17 per cent per annum, which is the prevailing commercial bank lending rate in Nepal, to allow an interest spread of at least 11 per cent. This spread is required to cover the high costs of intermediation and supervision of microcredit, premium for any guarantee fee that might be payable by financial intermediaries, provision for bad debts and a small profit margin. In addition, under Model A, part of the interest margin will be passed on to the NGOs for their services as credit agents to the PBs. The interest spread under the Project is comparable to the spread of 13 per cent provided under the ongoing IFAD-financed PCRW. The PBs and NGOs will bear the credit risk of the subloans. The subloans will be made on specific terms and conditions and will be processed in accordance with the agreed upon procedures (see Appendix 3). The subloans will be made to women beneficiaries as individuals or as groups. In appropriate cases, individual members of the group will be jointly and severally liable for repayment obligations of each individual. Further security will not be required except in cases where it is appropriate to create security over assets financed by a subloan. Further details on financing arrangements are given in Appendix 3.

### 3. Environmental Aspects

77. Given the nature of the Project, which supports small-scale economic activities by poor women, the Project is not expected to have significant adverse environmental impacts, and therefore it has been classified as a category C project. Nevertheless, the Project will take measures to avoid negative environmental impacts through training of beneficiaries and NGOs. The skills-training activities for women's groups and institutional support to NGO component will include courses on sound environmental practices such as selection of crop mixtures that can both generate cash income and improve soil fertility, and proper feeding and management of livestock to reduce overgrazing and deforestation. The environmental training extended to NGOs will assist them in making better choices among subprojects to be financed under the Project. If warranted, the Borrower will conduct, prior to the provision of a subloan, an initial environmental examination and environmental impact assessment according to environmental rules and regulations in the country.

### 4. Project Implementation Schedule

78. The Project will be implemented over a period of six years in a phased manner (see Appendix 4). During the first phase of about three years, Project activities will focus on preparatory work such as establishment of the NGO Support Unit; survey of NGOs in all the Project districts and towns; selection and accreditation of NGOs; training of WDD staff, NGO staff and women beneficiaries; and detailed design and improvement works for the WTCs and TMPC. At the same time, the mechanism for delivery of credit through PBs under Model A will be used and refined in Dang, Pyuthan and Salyan districts and in the major towns of Kathmandu, Pokhara/Dumre and Nepalganj. These activities will be closely monitored and



reviewed by WDD/MLD and the Bank every year. A comprehensive Mid-Term Review will be carried out by the Government, the Bank and other agencies (particularly Norway and UNIFEM) at the end of the first three years of Project implementation. The terms of reference for the Mid-Term Review are given in Appendix 5. Based on the findings of this review, adjustments in Project design and implementation will be considered, and a decision whether to utilize the credit delivery and recovery under Model B, in addition to Model A, and to expand the Project area to other districts and towns will be made by the Government and the Bank. During the second phase (years 4-6), proven concepts and activities will be expanded to the other nine districts and two towns in the Project area, but there will be flexibility in the final selection of districts and towns based on the results of the Mid-Term Review.

## 5. Procurement

79. In view of the multiplicity of small sub-borrowers and the diverse nature of goods and services to be procured under the credit component, international competitive bidding, international shopping or local competitive bidding are not expected to be economic or efficient. Accordingly, most procurement will be done according to normal commercial procedures through direct purchase by the sub-borrowers, in accordance with paragraph 3.08 of the Bank's Guidelines for Procurement - "Purchase of Equipment for Use of Small Private Sub-borrowers".

80. The civil works related to the rehabilitation and improvement of the WTCs will be carried out on the basis of local competitive bidding procedures acceptable to the Bank since the works are relatively simple and dispersed widely over the Project area, and it is unlikely that international contractors will be interested to bid. Equipment and vehicles required by the Project will be procured mainly on the basis of international shopping and, in some cases, through direct purchase procedures. The Bank's Guidelines for Procurement will be used in the procurement of civil works and equipment.

## 6. Consulting Services

81. The services of local and international consultants required under the Project will be financed from the proposed grants from JSF and the Government of Norway. Under the JSF-financed group formation and training of beneficiaries component, a total of about 132 person-months of consultant services from individual sources will be required in the following fields of specialization: institutional development (local), planning/training (local) and Project implementation (local). The terms of reference for consultant services are described in Appendix 5. Under the Norway-assisted Institutional Support to NGO component, a total of about 156 person-months of consultant services from suitably qualified firms comprising about 18 person-months of international consultants and about 138 person-months of local consultants will be required. The team of consultants will include the following experts: (i) NGO Development Specialist (foreign), (ii) NGO Management Specialist (local), (iii) Training Specialist (local), (iv) Financial/Marketing Specialist (local), (v) Microcredit Specialist (foreign), and (vi) NGO Credit Specialist (local). The terms of reference for consultant services are presented in Appendix 5. The consultants will be engaged by the Bank in accordance with the Bank's Guidelines on the Use of Consultants.

## 7. Benefit Monitoring and Evaluation

82. Overall monitoring of the physical and financial progress of the Project in relation to work plans and budgets for the group formation and training of beneficiaries component will be the responsibility of WDD. Baseline information on beneficiaries will be obtained by WDD with the assistance of NGOs. A benchmark survey, monitoring and evaluation studies of the Project's impact on beneficiaries will be carried out by WDD with assistance from UNIFEM following the procedures already established under PCRW. The main indicators to be monitored by WDD are the number and size of SHGs formed, number of women beneficiaries trained and provided with credit, amount of loans disbursed and repaid, and impact of the Project on family income and employment. To supervise and provide technical support to its field staff, WDD will appoint five experienced field officers as program officers based in Kathmandu. In addition, process documenters will be engaged by WDD to monitor field level procedures closely to understand the detailed interaction between development agents and the women beneficiaries, and to identify issues and constraints that require management action immediately. WDD will be responsible for the verification and analysis of the information collected by other institutions. NRB, as the Executing Agency for the credit component, will supply the information needed for monitoring the credit component to PIC. The results of the Project BME will be included in the semiannual progress reports that will be furnished by the Project Director to the Bank and other aid agencies (see para. 87)

## 8. Disbursements, Accounts, Reports and Audit

83. The Borrower will cause NRB and WDD to establish, within three months after the effective date of the Loan Agreement, imprest accounts to facilitate the timely disbursement of loan proceeds to finance, respectively, the credit and noncredit components of the Project. Advances will be made annually on the basis of the anticipated demand for credit by participating banks and NGOs and for the noncredit component by WDD. The imprest accounts will be established, managed and liquidated in accordance with terms and conditions satisfactory to the Bank and consistent with the Bank's Guidelines on Imprest Account.

84. NRB will transfer the advance for the credit component to an account to be opened especially for the Project. The loans to the NGOs will be disbursed by NRB directly or through other banks. Repayments by NGOs will be deposited to NRB's Microcredit Project for Women account directly or through other banks.

85. To liquidate the advances provided by the Bank to NRB, the Project Director, in cooperation with NRB, will submit to the Bank every six months certification of liquidations of the advance supported by two Statements of Expenditures (SOE): (i) the first SOE will summarize disbursements by NRB to the PBs and NGOs; and (ii) the second SOE will summarize payments by PBs and NGOs to the sub-borrowers.

86. WDD and NRB will continue to maintain separate accounts and financial statements for the Project and to have these audited annually by the Auditor General of Nepal. The audited accounts will be provided to the Bank within 12 months of the end of the fiscal year to which they relate. The PBs and NGOs that are involved in the delivery of credit under the Project will be required to submit their audited financial statements to NRB not later than 12 months after the end of each related fiscal year, and their financial statements will be

audited annually by suitably qualified external auditors. In addition, to enable the Bank to monitor their institutional and financial performance, the two PBs will be required to submit their audited financial statements not later than 12 months after the end of each related fiscal year.

87. Besides SOEs, the Project Director will also furnish the Bank and other aid agencies (including UNIFEM and the Government of Norway) semiannual progress reports on overall Project implementation. Within three months of the closing of the loan, the Project Director will submit a Project completion report that will review in particular the impact of the Project on beneficiaries and the utilization of loan proceeds.

#### **H. Executing Agencies**

88. WDD/MLD will be the Executing and Implementing Agency for the group formation and training of women beneficiaries and NGO institutional support components of the Project, while NRB will be the Executing and Implementing Agency for the credit component, with the assistance of the PBs and concerned NGOs. The selected NGOs will also assist WDD in implementing the group formation and training of women beneficiaries.

89. WDD has had considerable experience as an executing agency for a number of WID projects covering some 49 districts in five development regions. It has developed the PCRW model, which will be used, expanded and improved under the Project. During the implementation of the WID projects, the following major constraints or problems were identified: (i) limited implementation capacity of WDD; (ii) excessive responsibility of the WDO and other field staff; (iii) delay in the release of Government budget to WDD; and (iv) rigidity of the participating banks in channelling agricultural credit. During recent years, the Government has taken concrete measures to overcome the constraints. These measures are described below.

90. The Government has increased the number of staff of WDD to replace the contractual staff with permanent staff or to fill up the approved vacant positions. Recently, for example, 19 WDOs, 37 supervisory WDOs, 98 chief WWs, 74 WWs, and 22 accountants were recruited by WDD to build up the implementation capacity of field staff. The existing WDD Central Advisory Board (chaired by the Secretary of MLD) has been revitalized so that it can provide effective policy guidance and coordination to the WID projects, and WDOs have been shifted from the field to district headquarters to enable them to coordinate program activities at the district level effectively, and to participate in the District Development Committee meetings. In addition, seminars and workshops attended by staff from WDD, line agencies and PBs are organized annually by WDD as a means to improve planning, coordination and communications. This ensures that the line agencies will be involved right from the planning stage of the program; that clear implementation guidelines, strategies and standard norms are developed by WDD; and that the banking procedures for extending microcredit to women beneficiaries are clearly specified. To improve Project implementation, the Government has released WDD's budget in a timely manner, and WDOs have been given financial authority in the management of project funds at the district level. Finally, the data base at the central, district and village levels has been improved as a means to monitor and evaluate the program implementation.

91. The Government realizes that the number of WDD staff cannot be continuously increased to cope with the increasing demands of the WID program because of physical and financial constraints facing the Government. Therefore, under the Project, the implementation capacity of WDD will be further improved through the following measures: (i) selected NGOs will be used to complement the activities of WDD staff in the delivery of support services and credit to Project beneficiaries; (ii) part of the TA grant from JSF will be earmarked to train WDD staff at the central and district levels about their tasks and responsibilities under the Project so that there is clear understanding about their roles and about the Project itself; (iii) field staff of WDD will be provided with motorcycles or bicycles to improve their mobility; and (iv) NRB and WDD will establish imprest accounts to facilitate the timely disbursement of loan proceeds to finance, respectively, the credit and noncredit components of the Project.

92. As a central bank, NRB has had wide experience in monitoring and supervising credit projects in Nepal. As an Executing Agency for the credit component, it has considerable experience in the implementation of the priority sector credit scheme, the World Bank-assisted Cottage and Small Industry Project and IFAD-assisted PCRW. In view of this experience and its technical competence in supervising and monitoring credit projects in Nepal, NRB is considered an appropriate agency for implementing the credit component of the Project.

93. The PBs include RBB and NBL. These banks have been selected because they have extensive networks of branches throughout Nepal and have had considerable experience in lending microcredit to the poor under PCRW and priority sector lending programs. Although the banks have had weak performance in the past, their performance is expected to improve significantly in the coming years as a result of the corrective measures they are taking with the help of the Government and the World Bank (see para. 35 and Appendix 3). In addition, the financing agreements between NRB and the PBs will provide appropriate safeguards to ensure that Project funds lent to them are monitored and effectively utilized.

#### **I. Technical Assistance**

94. TA for the Group Formation and Training of Women Beneficiaries will accompany the proposed loan. The main objective of the TA is to provide social preparation and skills training to women to equip them for undertaking income-generating activities and small enterprises and/or for gaining remunerative employment where possible. The Executing Agency for the TA will be WDD/MLD. The TA will be financed from the Japan Special Fund on a grant basis in the amount of \$0.9 million. Although it is unusual for JSF-financed TA to be used for TA components of the projects financed by Bank loans, the cooperation arrangements between Japan and the Bank recognize that this may be appropriate in special cases. The Project design provides that skills training and beneficiary participation (to be provided under the TA) should be integrated with the provision of credit under the proposed Loan. The TA will therefore form part of the Project itself.

## **V. PROJECT JUSTIFICATION**

### **A. Financial and Economic Analysis**

#### **1. Project Benefits and Beneficiaries**

95. Although precise quantification of Project benefits and the number of beneficiaries is not possible because of the multiple credit line nature of disbursement under the Project, estimates based on a tentative allocation of Project resources indicate that about 20,000 women will be benefited from the skills training component. After receiving training in various technical, financial and/or management skills, it is expected that about 10,500 of them will get agricultural production credit; about 3,000, micro-enterprise credit; and about 300, small business promotion credit. The other trained women beneficiaries are expected to rely on their own savings or to obtain credit from other sources.

96. At full development, the Project will have a direct impact on (i) the production of foodgrains, vegetables and livestock products; and (ii) the development of cottage and agro-industries. It will foster the entrepreneurial spirit among women and increase their self-reliance. The new jobs created from the enterprises supported through credit under the Project are estimated at 13,800 person-years for self-employment, and 11,000 person-years for wage employment, comprising 10,500 person-years in the agriculture sector, 12,300 person-years in the cottage industry sector, and 2,000 person-years in the small business sector (see Appendix 6). The job creation cost will range from \$116 per job in the cottage industry sector to \$250 per job created in the small business sector. In economic terms, the credit component of the Project will generate total net income of about \$4.45 million for its entire economic life, of which agricultural production credit alone will generate a net income of about \$2.11 million.

97. Improvement of the financial, managerial, technical and operational capacities of NGOs supported by the Project will contribute to their long-term viability and sustainability. The Project will improve the ability of local NGOs to assist the Government in implementing WID programs in rural and urban areas. These NGOs will also form a nucleus for the development of a self-sustaining financial system that will benefit the target group through provision of savings, credit and related financial services.

98. The financial internal rates of return (FIRRs) for typical subprojects range from 24 per cent to 61 per cent while their economic internal rates of return range from 13 per cent to 35 per cent (see Appendix 6). Net cash flows after debt service indicate that the subprojects are attractive from the borrowers' point of view. Among the subprojects, livestock production, cottage industries and small business activities show high FIRRs. However, some of the subprojects in the cottage industries seem to be sensitive to sales declines, suggesting that marketing arrangements for their products should be examined closely by the banks or NGOs before recommending the subprojects to women beneficiaries. Under the Project, the NGO Support Unit will advise the NGOs and the banks on the selection of viable enterprises/activities. In addition, the type of skills training to be offered by the Project to beneficiaries will take into account the availability of markets for finished products and availability of raw materials and other inputs.

## 2. Project Risks

99. The principal risk for the Project is that NGOs in Nepal lack sufficient experience to deliver social and financial services to the Project beneficiaries as anticipated. To minimize this risk, the involvement of local NGOs and SHGs in the delivery and recovery of microcredit will be developed gradually and systematically. For this purpose, there will be a detailed survey of NGOs and self-help groups in the Project area, followed by identification of NGOs that meet strict eligibility criteria to act as credit agents under Model A or as financial intermediaries under Model B, and TA and training support to eligible NGOs during the first three years of Project implementation. Wherever possible, the Project activities will be carried out in districts and villages where NGOs and SHGs are known to operate. After the strengthening phase and a thorough Mid-Term Review of the Project, the Government and the Bank will decide whether to use the NGOs as financial intermediaries. In the event that the Government and the Bank decide to proceed with the credit delivery and recovery system under Model B, the more developed NGOs in Kathmandu would be used initially as financial intermediaries, while district or village-based NGOs would be brought in later. This phased approach will ensure that a sufficient number of competent NGOs and SHGs can be developed to deliver the social and financial services under the Project, and that the risks of their involvement as financial intermediaries will be minimized. However, in some villages where suitable NGOs cannot be found, the WDOs and WWs under MLD, in combination with the participating banks, will continue to organize beneficiaries and deliver social and financial services to women using the PCRW model. The two credit delivery mechanisms under the Project (i.e., Models A and B) will enable the Project beneficiaries to receive credit from either the PBs or the NGOs.

100. The second identified risk for the Project is that the participating banks will not be able to deliver and recover microcredit efficiently due to their weak performance in the past leading to unsatisfactory loan disbursements and repayment rates. The Project will meet this risk by (i) designating WWs or eligible NGOs to act as agents for the participating banks, assisting in loan applications, project supervision and repayment follow-up in addition to group formation and beneficiary training, (ii) providing a sufficient interest spread of at least 11 per cent to cover the high costs of intermediation and supervision of microcredit, provision for bad debts and a small profit margin, (iii) involving NGOs as financial intermediaries to complement the activities of the PBs if after three years of Project implementation, the NGOs are found to be willing and experienced in fulfilling the financial services function, (iv) utilizing other banks in the delivery and recovery of microcredit to Project beneficiaries if this proves advantageous with respect to increased disbursement and repayment rates, and (v) insuring the loans to beneficiaries with the Credit Guarantee Corporation. The risks related to the participating banks will be further reduced by (i) the efforts of the Government and the World Bank to improve the performance of the participating banks, (ii) the small size of the credit component (about \$3.5 million) in relation to their assets (about \$540 million) and deposits (about \$430 million), and (iii) the excellent repayment records of women subborrowers in the past.

101. The third identified risk for the Project is that bureaucratic rigidity will inhibit innovation, leading to delays and inefficiencies in Project implementation. As the Project is of a pilot nature, trying to develop a new modality for delivery of financial services to the poor, it is necessary that sufficient flexibility be provided during implementation, by both the Government and the Bank, to overcome unforeseen obstacles. As much flexibility as possible

has been provided in the Project design. For example, NGOs are free to formulate their relationship with the beneficiaries in a way that suits their individual circumstances. Financing arrangements can be altered to facilitate the flow of funds without sacrificing control and supervision standards. For this purpose, an annual review and a Mid-Term Review have been included in the Project to consider adjustments in Project design and implementation arrangements.

102. The fourth identified risk for the Project is the limited implementation capacity of WDD. The Project will meet this risk through the following measures: (i) Project activities will initially be concentrated in three districts that have already had a full complement of well-trained WDD staff, and then the activities will be gradually expanded to other districts if WDD is able to engage trained field workers; (ii) local NGOs will be engaged by the PIC to complement WDD staff in undertaking the Project activities; and (iii) part of the grant funds will be utilized to engage consultants and supporting staff to assist WDD in Project implementation.

103. To minimize the risks discussed above, the Project will be closely supervised by the Bank during its implementation. During the initial years, loan review missions will be undertaken more frequently than usual in order to monitor closely the progress of Project implementation, to identify problems that the Project will encounter and to work out measures to solve the problems.

## **B. Social Dimensions**

104. The Project has been designed to improve the socioeconomic status of low-income, socially disadvantaged women in selected districts and towns in Nepal. Beneficiary participation has been incorporated in the design of the Project to ensure that its assistance package is based on the needs of beneficiaries, in addition to constraints and opportunities prevailing in the Project area (see para. 69)

105. The approach of the Project is considered innovative, since it is intended to encourage Government agencies and NGOs to work together at the village and urban levels to develop, promote and implement community service and development programs corresponding to established needs of the women beneficiaries, and to develop alternative mechanisms for delivery and recovery of microcredit involving NGOs. The success of this Project will have far-reaching consequences on the implementation of the WID program in the country, as it will greatly improve the coverage of the Government's poverty reduction program.

106. Social preparation is considered a prerequisite to any human resource development and investment program targeting marginal beneficiaries, especially women. For this reason, the Project will emphasize social preparation as part of the strategy to improve the socioeconomic status of women (see para. 69). In addition, to ensure the effectiveness of the income-generating programs to be carried out under the Project, credit will be made available to women beneficiaries only after they have been organized into stable SHGs and have received appropriate skills training.

107. In addition to improving the socioeconomic status of women, institutional development of NGOs will be carried out as a separate but parallel activity under the Project. Improvement of the financial, managerial, technical and operational capabilities of NGOs

supported by the Project will not only improve the delivery of services and resources to target beneficiaries, but will also contribute to their long-term viability and sustainability. In the long run, the Project will improve the ability of local NGOs to assist the Government in implementing WID programs and other poverty reduction programs in rural and urban areas.

## **VI. ASSURANCES**

### **A. Specific Assurances**

108. The Government has given the following assurances, in addition to the standard assurances, which have been incorporated in the legal documents:

- (i) Improvement of Training Facilities. The Borrower will, in consultation with the Bank, develop and implement procedures for the operation of WTCs, including (a) the introduction of revised curricula for appropriate skills training for rural women and in-service training of trainers, WDOs and WWs; (b) the introduction of follow-up field courses for trainees including, where appropriate, the provision of liaison arrangements with financial intermediaries; and (c) measures to enable the WTCs to function as multi-user facilities available at cost to public authorities and NGOs, thereby increasing utilization.
- (ii) Staffing. The Borrower, through MLD and in consultation with the Bank, will maintain or create sufficient permanent position (a) for a WDO in the District Headquarters within the organization of Local Development Offices of MLD in the Project area, and (b) for WWs in each village in which the Project activities are carried out.
- (iii) Regulation of NGOs. The Borrower will keep the Bank informed at all times of proposals to introduce legislation or regulations to govern the activities of NGOs. In particular, the Borrower will, within one year of the effectiveness, adopt a policy, including proposals for legislation, to promote the participation of NGOs in the development process. This policy will include measures to (a) simplify the registration procedures for NGOs, including the adoption of a recognized definition of NGOs for the purpose of registration with the competent authorities; (b) develop a regulatory framework and specific mechanisms to enable NGOs to act as financial intermediaries; (c) identify the functions of SWC as a facilitator of the activities of NGOs, with responsibility for monitoring and audit of NGOs; and (d) introduce mechanisms for collaboration between local NGOs and international NGOs. In addition, as a condition for disbursement of funds to NGOs for credit operations, the Borrower will have adopted appropriate legislation or regulations to provide specific mechanisms for the delivery of credit by NGOs.
- (iv) Approval by NRB of Financing Agreements. The Borrower will ensure that NRB, in consultation as necessary with other agencies, adopts simplified procedures, including the identification of any information to



be required as part of an application, to enable decisions to be reached within a reasonable period of time on applications by NGOs for permission to lend and borrow money. The Borrower will ensure that accreditation of NGOs constitutes approval by NRB for such NGOs to lend and borrow money.

- (v) Mid-Term Review. The Borrower, the Bank and the Government of Norway will conduct a comprehensive mid-term review of all aspects of Project implementation within three years of the effectiveness. This review will include an assessment of the progress of the Project, the development of the Borrower's policy on promotion and regulation of activities of NGOs, and the capacity of NGOs to act as financial intermediaries. Based on the outcome of the review, the Borrower and the Bank, in consultation with the Government of Norway and other aid agencies, will decide whether to utilize Model B, in addition to Model A, for the remainder of the Project. The review will recommend in particular any necessary changes to organizational and institutional structures to improve Project implementation and any appropriate expansion of Project activities within the Project area beyond the initial phase.
- (vi) Project Benefit Monitoring and Evaluation. MLD will, within one year of the effectiveness, appoint five experienced field officers as program officers, based in Kathmandu, to supervise and provide technical support to WDOs by means of regular and more frequent visits to the Project area. WDD will be responsible, in accordance with arrangements satisfactory to the Bank, for monitoring Project implementation and evaluating Project benefits. In particular, WDD, in consultation with UNIFEM, will carry out initial baseline surveys of beneficiaries and will engage NGOs and appropriate local individuals and institutions to assess the impact of the Project on beneficiaries. WDD will be responsible for verification and analysis of the information collected by NGOs, individuals and institutions.

## **B. Conditions of Loan Effectiveness**

109. The Borrower will have established a PIC within WDD, headed by the Joint Secretary in charge of WDD as Project Director; and entered into arrangements satisfactory to the Bank for the provision of the Norwegian grant or alternative funds to finance Part B of the Project.

**VII. RECOMMENDATION**

110. I am satisfied that the proposed loan, technical assistance, and administration of Norwegian co-financing would comply with the Articles of Agreement of the Bank and recommend that the Board approve:

- (i) the loan in various currencies equivalent to Special Drawing Rights 3,544,000 to the Kingdom of Nepal for the Microcredit Project for Women, with a service charge at the rate of 1 per cent per annum and with an amortization of 40 years, including a grace period of 10 years and such other terms and conditions as are substantially in accordance with those set forth in the draft Loan Agreement presented to the Board;
- (ii) the technical assistance of \$900,000 equivalent to His Majesty's Government of Nepal for the Group Formation and Training of Women Beneficiaries on a grant basis; and
- (iii) administration by the Bank of the grant of \$2.0 million equivalent from the Government of Norway for the Institutional Support to NGO component of the Project.

KIMIMASA TARUMIZU  
President

Date: 1 June 1993

**APPENDIXES****A. Core Appendixes**

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**B. Supplementary Appendixes (Available if Required)**

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C	Present Status and Development Potential of NGOs in Nepal
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G	Equipment To Be Procured under the Project
H	Executing Agencies
I	Indicative List of Training Courses
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**EXTERNAL ASSISTANCE TO NEPAL FOR WOMEN'S DEVELOPMENT (1985-1992)**

Agency	Project	Years	Amount (\$'000)
<b>I. Multilateral</b>			
<b>A. Loans</b>			
ADB	Seti Zone Rural Development	1986	20,000 <sup>a/</sup>
	Third Small Farmers Development	1990	30,000 <sup>a/</sup>
	Upper Sagarmatha Agricultural Development	1991	13,260 <sup>a/</sup>
IFAD	Production Credit for Rural Women (PCRW)	1988-94	6,000
<b>B. Grants</b>			
UNICEF	Education of Girls and Women	1988	870
	Nepal National Literacy Program	1988	1,360
	PCRW	1988-92	2,639
	Literacy Program and PCRW	1990-92	572
	PCRW (Expansion)	1992-96	2,785
UNFPA	Population/Family Welfare Education and PCRW	1989-91	88
	Population/Family Welfare Education and PCRW (Expansion)	1992-97	400
UNDP	Developing Women's Entrepreneurship in Tourism	1990-92	662
FAO	Enhancing the Agricultural Production Capacity of Rural Women	1989-1994	1,500
<b>II. Bilateral Grants</b>			
USAID	Rapti Development	1987-95	18,800 <sup>a/</sup>
	Women's Legal Services	1988-93	283
	Self-Reliant Development for Marginal Women	1990-93	49
Switzerland	Integrated Hill Development (Phase III)	1985-91	9,337 <sup>a/</sup>
	Women Development	1989	796
CIDA	Karnali-Bheri Integrated Rural Dev.	1985-92	14,964 <sup>a/</sup>
FINNIDA	PCRW	1988-92	960
NORAD	Support to WDD for Enhancing Production for Food Security	1989-91	1,408

<sup>a/</sup> Only a small portion of the loan or grant targets women beneficiaries.

# COST ESTIMATES AND FINANCING PLAN

Table 1: Project Cost Estimates

(\$'000)

Component	Year 1		Year 2		Year 3		Year 4		Year 5		Year 6		Total		
	FX	LC	FX	LC	FX	LC	FX	LC	FX	LC	FX	LC	FX	LC	Total
I. GROUP FORMATION AND TRAINING	162	147	234	329	170	403	65	154	42	160	40	142	713	1335	2048
A. Training Activities	32	68	12	80	18	114	56	154	33	160	31	142	182	718	900
1. Group Formation	1	4	1	6	2	13	2	13	2	13	2	13	10	62	72
2. Training of Beneficiaries	3	9	7	29	13	57	24	90	24	90	22	83	93	358	451
a. Agricultural Production	2	6	4	12	7	23	12	38	12	38	12	38	49	155	204
b. Cottage Industry	1	3	2	8	4	16	8	27	8	27	8	27	31	108	139
c. Small Business Enterprises	0	0	1	9	2	18	4	25	4	25	2	18	13	95	108
3. Training of Trainers/Officers	2	6	1	7	0	0	0	0	0	0	0	0	3	13	16
4. Consulting Services	24	45	2	32	1	32	22	31	2	31	1	19	52	190	242
a. Institutional Dev. Specialist (Local, 72 mm)	0	12	0	12	0	12	0	12	0	12	0	12	0	72	72
b. Planning/Training Specialist (Local 30 mm)	0	6	0	6	0	6	0	6	0	6	0	0	0	30	30
c. Project Implementation Advisor	0	6	0	6	0	6	0	6	0	6	0	0	0	30	30
d. Vehicles (2 4WD)	20	0	0	0	0	0	20	0	0	0	0	0	40	0	40
e. Domestic Travel	0	3	0	2	0	1	0	1	0	1	0	2	0	10	10
f. Miscellaneous	4	18	2	6	1	7	2	6	2	6	1	5	12	48	60
Base Cost (Subtotal 1 A)	30	64	11	74	16	102	48	134	28	134	25	115	158	623	781
Physical Contingency	1	3	0	2	0	2	1	2	0	2	0	1	2	12	14
Price Contingency	1	1	1	4	2	10	7	18	5	24	6	26	22	83	105
B. Rehabilitation of WTCs and TMPC	130	79	222	249	152	289	9	0	9	0	9	0	531	617	1148
1. Civil Works	24	48	96	192	120	240	0	0	0	0	0	0	240	480	720
2. Furniture, Equipment, etc.	96	24	96	24	0	0	0	0	0	0	0	0	192	48	240
Base Cost (Subtotal 1 B)	120	72	192	216	120	240	0	0	0	0	0	0	432	528	960
Physical Contingency	7	6	14	20	12	24	0	0	0	0	0	0	33	50	83
Price Contingency	2	1	12	13	13	25	0	0	0	0	0	0	27	39	66
Interest During Construction	1	0	4	0	7	0	9	0	9	0	9	0	39	0	39

Component	Year 1		Year 2		Year 3		Year 4		Year 5		Year 6		Total		
	FX	LC	FX	LC	FX	LC	FX	LC	FX	LC	FX	LC	FX	LC	Total
II. INSTITUTIONAL SUPPORT TO NGOS	221	282	180	287	185	233	39	201	8	179	9	186	632	1368	2000
A. NGO and Training Needs Surveys	0	40	0	40	0	0	0	0	0	0	0	0	0	80	80
B. Direct Support to NGOs	0	69	25	79	25	64	25	30	0	30	0	30	75	302	377
1. Overseas Training/Exchange Program	0	0	25	0	25	0	25	0	0	0	0	0	75	0	75
2. Domestic Training	0	24	0	24	0	24	0	0	0	0	0	0	0	72	72
3. Equipment and Furniture	0	15	0	25	0	10	0	0	0	0	0	0	0	50	50
4. Incremental Operating Cost	0	30	0	30	0	30	0	30	0	30	0	30	0	180	180
C. Consultant Services	139	95	134	95	134	95	5	95	5	71	5	71	422	522	944
1. NGO Dev. Specialist (Local, 72 mm)	0	36	0	36	0	36	0	36	0	36	0	36	0	216	216
2. Training & Curr.Dev.Specialist (Local 24 mm)	0	18	0	18	0	18	0	18	0	0	0	0	0	72	72
3. NGO Management Specialist (Foreign, 9 mm)	60	0	60	0	60	0	0	0	0	0	0	0	180	0	180
4. Financial/Marketing Specialist (Local 24 mm)	0	12	0	12	0	12	0	12	0	12	0	12	0	72	72
5. Microcredit Specialist (Foreign, 9 mm)	60	0	60	0	60	0	0	0	0	0	0	0	180	0	180
6. Microcredit Specialist (Local, 24 mm)	0	12	0	12	0	12	0	12	0	12	0	12	0	72	72
7. International Travel	14	0	9	0	9	0	0	0	0	0	0	0	32	0	32
8. Domestic Travel	0	12	0	12	0	12	0	12	0	6	0	6	0	60	60
9. Report Preparation and Communications	5	5	5	5	5	5	5	5	5	5	5	5	30	30	60
D. NGO Support Unit	54	48	0	36	0	36	0	36	0	36	0	36	54	228	282
1. Office Manager	0	5	0	5	0	5	0	5	0	5	0	5	0	30	30
2. Accountant	0	5	0	5	0	5	0	5	0	5	0	5	0	30	30
3. Typists/Secretaries (2)	0	4	0	4	0	4	0	4	0	4	0	4	0	24	24
4. Drivers (2)	0	2	0	2	0	2	0	2	0	2	0	2	0	12	12
5. Messengers	0	2	0	2	0	2	0	2	0	2	0	2	0	12	12
6. Office Rental	0	12	0	12	0	12	0	12	0	12	0	12	0	72	72
7. Utilities	0	6	0	6	0	6	0	6	0	6	0	6	0	36	36
8. Vehicles (2)	36	4	0	0	0	0	0	0	0	0	0	0	36	4	40
9. Motor Bikes (2)	5	1	0	0	0	0	0	0	0	0	0	0	5	1	6
10. Computers and Printers (2)	7	1	0	0	0	0	0	0	0	0	0	0	7	1	8
11. Office Equipment and Furniture	6	6	0	0	0	0	0	0	0	0	0	0	6	6	12
E. Administration/Operation Cost	4	12	3	9	2	8	2	8	2	8	2	8	15	53	68
Base Cost (Subtotal II)	197	264	162	259	161	203	32	169	7	145	7	145	566	1185	1751
Physical Contingency	10	13	8	13	8	10	2	8	0	7	0	7	28	58	86
Price Contingency	4	5	10	15	16	20	5	24	1	27	2	34	38	125	163

Component	Year 1		Year 2		Year 3		Year 4		Year 5		Year 6		Total		
	FX	LC	FX	LC	FX	LC	FX	LC	FX	LC	FX	LC	FX	LC	Total
III. PROVISION OF CREDIT	0	0	83	77	186	165	404	348	715	633	997	886	2385	2109	4494
A. Agricultural Production Credit	0	0	38	38	77	77	192	192	383	383	585	585	1275	1275	2550
B. Cottage Industry Credit	0	0	36	18	91	45	184	92	286	143	360	180	957	478	1435
C. Small Business Credit	0	0	9	21	18	43	28	64	46	107	52	121	153	356	509
Base Cost (Subtotal III)	0	0	83	77	186	165	404	348	715	633	997	886	2385	2109	4494
IV. INCREMENTAL ADMINISTRATIVE AND OPERATING COSTS	34	72	36	100	15	127	16	217	17	225	19	214	137	955	1092
A. Training (Facilities, Tutors)	0	12	0	26	0	38	0	58	0	58	0	38	0	230	230
1. Beneficiary Training	0	10	0	22	0	34	0	54	0	54	0	34	0	208	208
2. NGO Staff Training	0	2	0	4	0	4	0	4	0	4	0	4	0	22	22
B. WDD and District Office	33	45	33	45	12	42	12	93	12	93	12	93	114	411	525
1. Women Development Officers	0	0	0	0	0	0	0	15	0	15	0	15	0	45	45
2. Women Workers	0	27	0	27	0	27	0	63	0	63	0	63	0	270	270
3. Driver	0	1	0	1	0	1	0	1	0	1	0	1	0	6	6
4. Travelling Allowance	0	2	0	2	0	2	0	2	0	2	0	2	0	12	12
5. District Officer Operating Costs	8	8	8	8	8	8	8	8	8	8	8	8	48	48	96
6. Other Operating Costs	4	4	4	4	4	4	4	4	4	4	4	4	24	24	48
7. Motorbikes and Bicycles	21	3	21	3	0	0	0	0	0	0	0	0	42	6	48
C. Credit	0	14	0	24	0	36	0	40	0	40	0	44	0	198	198
1. Salaries and Wages	0	8	0	16	0	22	0	30	0	30	0	30	0	136	136
2. Office Equipment and Other	0	6	0	8	0	14	0	10	0	10	0	14	0	62	62
Total Base Cost (Subtotal IV)	33	71	33	95	12	116	12	191	12	191	12	175	114	839	953
Price Contingency	1	1	2	5	1	11	2	26	2	34	3	39	11	116	127
Interest During Construction	0	0	1	0	2	0	2	0	3	0	4	0	12	0	12
TOTAL PROJECT COST	407	501	533	793	556	928	524	920	782	1197	1065	1428	3867	5767	9634
Total Base Cost	380	471	481	721	495	826	596	842	762	1103	1041	1321	3655	5284	8939
Physical Contingency	18	22	22	35	20	36	3	10	0	9	0	8	63	120	183
Price Contingency	8	8	25	37	32	66	14	68	8	85	11	99	98	363	461
Interest During Construction	1	0	5	0	9	0	11	0	12	0	13	0	51	0	51

a/ Physical contingencies: 5% on vehicles and equipment, and 10% on civil works

**Table 2: Proposed Financing Plan for the Project  
(\$'000)**

Project Component	Bank			JSF			Norway			Gov't.	PB/NGO	Beneficiaries	TOTAL
	FX	LC	Subtotal	FX	LC	Subtotal	FX	LC	Subtotal	LC	LC	LC	
A. Group Formation and Training				182	718	900							900
B. Rehabilitation of WTCs and TMPC	531	387	918				0	0	0	230	0	0	1,148
C. Institutional Support to NGOs	0	0	0				632	1,368	2,000	0	0	0	2,000
D. Provision of Credit	2,385	1,211	3,596				0	0	0	0	449	449	4,494
E. Administrative and Operating Costs	137	349	486				0	0	0	606	0	0	1,092
<b>TOTAL</b>	<b>3,053</b>	<b>1,947</b>	<b>5,000</b>	<b>182</b>	<b>718</b>	<b>900</b>	<b>632</b>	<b>1,368</b>	<b>2,000</b>	<b>836</b>	<b>449</b>	<b>449</b>	<b>9,634</b>
<b>Per Cent</b>			<b>52</b>			<b>9</b>			<b>21</b>	<b>8</b>	<b>5</b>	<b>5</b>	<b>100.0</b>



**PROJECT IMPLEMENTATION****A. Executing Agencies**

1. The Women Development Division (WDD) under the Ministry of Local Development (MLD) will be the main Executing Agency for the group formation and training of women beneficiaries and non-government institution (NGO) institutional support components of the Project, while Nepal Rastra Bank (Central Bank of Nepal or NRB) will be the main Executing Agency for the credit component, with the assistance of the participating banks (PBs) and concerned NGOs. The selected NGOs will also assist WDD in implementing the group formation and training of women beneficiaries.

**B. Implementation Arrangements****1. Women Development Division**

2. WDD/MLD will take overall responsibility for reporting and benefit monitoring and evaluation (BME). The WDD Undersecretary in charge of special program assistance will be the Coordinator for the two components. The Project will be implemented through the existing administrative structure of MLD at the national and district levels. At the national level, WDD will be supported with a Project Implementation Committee (PIC) with a secretariat staffed by WDD. The PIC, chaired by the Project Director, will act as a focal point for overall Project management and coordination (see para. 41). At the district level, Women Development Officers (WDOs) will coordinate the activities of the Project with NGOs and Government agencies through the District Development Committees. At the village level, Women Workers (WWs) of WDD will be responsible for identification, mobilization and training of women beneficiaries in cooperation with selected NGOs. To facilitate the coordination of Project activities at the district level, WDD will cause WDOs to maintain accounts for counterpart funds provided by the Borrower.

3. The principal tasks and responsibilities of WDD will involve (i) posting of WDOs and WWs in the Project area and provision of appropriate curriculum development and in-service training of its staff to meet Project implementation needs; (ii) preparation of inventory on ongoing training programs carried out in districts and municipalities, the availability of fixed and mobile training facilities, and the number and location of beneficiaries who have obtained appropriate skills or business development training and are potential recipients for follow-up credit and support assistance; (iii) curriculum development and beneficiary training in social preparation, self-help group (SHG) formation, savings mobilization, and appropriate practical skills and simple business operations; (iv) coordination with the NGO Support Unit for providing institutional support to NGOs; (v) liaison with line ministries, bilateral and multilateral agencies, international NGOs, PBs and District Development Committees on the integration of the Project into local area development programs; and (vi) preparation of semiannual progress reports and the completion of BME studies to meet the needs of the Government, the Bank and the United Nations Development Fund for Women (UNIFEM). Some of these activities will be assisted by consultants.

4. Within WDD an NGO Support Unit, comprising domestic and international consultants, will be established within one year of the effectiveness as an autonomous team under the guidance of the Project Director. Its principal function will be to supply a broad spectrum of institutional development and management services to NGO working within the Project area. Its principal tasks and responsibilities will be to (i) coordinate and liaise with Social Welfare Council (SWC), INGOs and any other agencies handling assistance programs to NGOs in the Project area; (ii) undertake and/or contract out surveys within the Project area to identify all successful SHGs with potential to develop as NGOs, all functioning registered and non-registered local NGOs, and all branches of other NGOs operating in the Project area, and evaluate their suitabilities for institutional strengthening; (iii) provide institutional support to SHGs/NGOs selected; (iv) work with local NGOs to encourage the formation of NGO Cooperation Associations (NGOCAs) at the district level to facilitate the development of groups of independent NGOs that can work together as teams to provide a broad spectrum of local services; (v) assist local NGOs in the preparation of proposals for submission to the PBs or the Approval Committee (see para. 7); (vi) select, train and supervise local NGOs to work as agents of the PBs in the provision of credit to their members or groups of beneficiaries; (vii) in conjunction with NRB, design a new standard credit administration/accounting system for NGOs together with the necessary security and legal regulations, operational manuals and training modules for NGO staff to enable NGOs to act as financial intermediaries; (viii) select and propose NGOs successfully operating participating bank agency schemes under (vi) above to NRB to provide direct financial intermediary services; (ix) receive and appraise applications for loans by NGOs that can be recommended to the Approval Committee; (x) recommend viable activities/ enterprises to NGOs and beneficiaries; and (xi) prepare and operate the necessary data base/management information system, and routinely monitor and report on the institutional support to NGOs component of the Project to the WDD Undersecretary for inclusion in Project six-monthly and annual reports.

## 2. Nepal Rastra Bank

5. NRB will be the Executing Agency for the credit component of the Project. NRB will appoint the Chief Manager of the Development Finance Department as its Coordinator. The primary task of NRB will be the provision of lines of credit to participating banks and NGOs for onlending to women beneficiaries.

6. In consultation with the PIC, NRB will (i) work with WDD, the NGO Support Unit, and PBs to introduce appropriate systems and procedures for savings mobilization and credit-linked operations in the Project area, using WDD staff and selected NGOs as client introduction and supervision agents under Model A (see para. 22); (ii) prepare and adopt an appropriate regulatory framework and mechanisms for NGOs to act as financial intermediaries; (iii) work with the NGO Support Unit to introduce, field test and develop a new mechanism for credit delivery and recovery involving NGOs under Model B (see para. 22); (iv) establish Approval Committees in Kathmandu and Project districts/towns, which will process and approve loan applications from NGOs; (v) channel credit funds to participating banks and NGOs and make arrangements to receive repayments; and (vi) monitor the progress of implementation of the credit component and prepare reports to the PIC in line with standardized formats required by the Government and the Bank.

7. In the event that Model B is adopted after the completion of the Mid-Term Review, NRB will establish a National Approval Committee in Kathmandu comprising a representative of NRB as chairman, the Director of the PIC and a representative of the Ministry of Finance; and a District Approval Committee comprising a representative of NRB as chairman, a representative of MLD and a representative of the NGO Cooperation Association or other district-level NGO association (henceforth called the NGO Cooperation Association) within 3 and 6 months, respectively, of the completion of the Mid-Term Review.<sup>1/</sup> The NRB representative may be a NRB official or a nominee from a commercial bank, depending on the presence of NRB branch offices in the Project districts and towns. The Approval Committees will decide on the applications submitted by NGOs for inclusion in the credit component of the Project. Decisions will be based on the recommendations of the NGO Support Unit. Approved NGOs will be required to sign a financing agreement with NRB acceptable to the Bank. The Approval Committees will meet as frequently as required, at least once a month after the NGOs start to apply for loans, to consider the applications submitted by NGOs.

### 3. Participating Banks

8. The PBs include the Government-owned Rastriya Banijya Bank (RBB) and Nepal Bank Limited (NBL). These banks have been selected because they have intensive networks of branches throughout Nepal and have had considerable experience in providing microcredit to the poor under the Production Credit for Rural Women (PCRW) Program and priority sector lending programs. Throughout the Project implementation period the PBs will be credit intermediaries under the Model A arrangements within the credit component of the Project, working with WDD and NGOs to promote savings mobilization and channeling subloans following their current practices to eligible beneficiaries who have received appropriate skills training either within the Project or from other programs.

9. RBB and NBL are the oldest banks in Nepal and account for about 72 per cent of the resources of the banking system, while ADBN and the three joint venture banks account for the remaining 28 per cent. Between them the two banks have 430 branches, staff strength of 11,200, assets amounting to NRs 27 billion and deposits amounting to NRs 21 billion. Almost 70 per cent of the bank branches are in the rural areas. Rural branches are estimated to provide about 60 per cent of the deposits and generate about 40 per cent of the lending business. In view of their extensive branch networks and significance in the overall rural economy, both IFAD and the World Bank have channeled funds through the two banks.

10. Because of the importance of the two banks to the national economy, the Government commissioned the Commercial Bank Problem Analysis and Strategy Study (CBPASS) and the World Bank to examine the problems confronting the two banks. Data published by NRB indicated that the two banks have incurred heavy losses during the last few years. NBL incurred losses of NRs 801 million in 1991/92 and NRs 901 million in 1992/93, while RBB incurred losses of NRs 662 million in 1991/92 and NRs 877 million in 1992/93. The major factors contributing to the losses include the following:

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<sup>1/</sup> The composition of the District Approval Committee will be reviewed after the Government has established District and Village Development Committees in the Project districts to determine whether a representative of these should be included.

- (i) Many of the rural branches are unprofitable because of high overhead costs.
- (ii) Managers and staff require further training and improved motivation.
- (iii) The banks' credit management policies, branch operations, monitoring, information and accounting systems are not well suited to operating with a commercial orientation.
- (iv) About one third of outstanding loans and advances are considered bad debt and uncollectible as a result of the combined effects of losses in lending to large industrial/commercial firms owned by influential persons, and shortcomings in credit analysis and management.
- (v) The banks have inadequate spread as a result of poor quality portfolio and high reserve requirements.

11. To improve the performance of RBB and NBL, CBPASS and the World Bank have made the following recommendations:

- (i) The rural branch networks should be rationalized by reducing the transaction costs and closing excess and underutilized rural branches to establish viable branches.
- (ii) Fundamental institutional reforms should be put in place to turn the banks into commercially oriented and profit-maximizing institutions.
- (iii) Credit discipline should be strengthened through establishing an effective legal and administrative system for expeditious resolution of defaults.
- (iv) The two banks should be recapitalized to obtain capital adequacy in line with international standards.
- (v) Financial intermediation should be improved by lowering reserve requirements and increasing interest rates on reserve assets.

12. The Government and the banks have recognized the need for corrective actions and the Government is heavily committed to improving the performance of RBB and NBL. Some actions have already been taken while others are being implemented. Measures which have been taken include increasing paid-up capital, closing loss-incurring branches, reducing excess staff, improving credit analysis, management and supervision, and stopping behest loans and other loans based on Government guarantee.

#### 4. Participating NGOs

13. For the purpose of the Project, NGOs will be defined as private, voluntary, politically neutral, nonprofit organizations committed to helping the disadvantaged, the poor or the needy, legally established and registered with the appropriate authorities. Based on this definition, NGOs include all private, voluntary organizations or societies organized and owned

independently of Government agencies, SHGs, user groups, and private research and development organizations registered with the Chief District Office or any other appropriate agency of the Borrower.

14. NGOs will actively participate in the Project as catalysts and intermediaries. Their primary role will be in social preparation and the provision of planning support and development services to their members (Stage I). Subsequently, it is anticipated that many of them will act as agents for PB financial services (Stage II), with some eventually providing direct credit to sub-borrowers (Stage III). The NGOs will be selected by the NGO Support Unit in consultation with WDD and NRB according to the criteria agreed upon between the Government and the Bank (see para. 30).

15. Stage I NGOs will be contracted to (i) assist in surveying the socioeconomic conditions in their catchment areas; (ii) undertake activities to create a heightened awareness among the target beneficiaries of the real potential of coordinated self-help and assisted development; (iii) institutionalize women's groups, which will become the focus for contact with and the provision of educational, health, technical extension, and savings and credit services; and (iv) strengthen women's groups to encourage the spirit of purpose and discipline to take on credible viable income-generating activities both for the group and individual beneficiaries. To strengthen the effectiveness of such NGO operations, participating Stage I NGOs will be encouraged to join NGOCAs at the district and municipality levels. The NGOCAs will bring together both national/regional NGOs operating in the concerned area and local-based NGOs. The objectives of the establishment of such associations are (i) to foster inter-NGO support; and (ii) to promote the sharing of managerial and planning skills and to generate the widest possible coverage of NGO services at the local level. Membership in such associations will not be compulsory.

16. Stage I NGOs that demonstrate management competence, an understanding of the concepts involved in developing income-generating activities and an ability to operate savings mobilization programs effectively within their membership will be encouraged to become Credit Agents for the PBs (Stage II NGOs). No time restriction is proposed for initial successful Stage I operations, as many NGOs have already demonstrated such potential. Selection of such NGOs will be undertaken jointly by the NGO Support Unit and the appropriate PB. Stage II NGOs will receive training for their staff in simple administration and credit accounting, subloan project appraisal, noncollateralized security systems based principally on group liability, and loan supervision and recovery. Such training will be undertaken together with local PB officials to promote understanding of their varying field roles.

17. Subject to the acceptance of their members and a minimum of one year of satisfactory operation as PB Credit Agents, Stage II NGOs will qualify for consideration by NRB as future direct financial intermediaries. The responsibility for selection as Stage III NGOs will lie with the NGO Support Unit in consultation with NRB and WDD using the criteria agreed to between the Government and the Bank. Stage III NGOs will be required to use the administrative and accounting systems recommended by the NGO Support Unit and NRB to assist in the future development of a single national NGO Direct Financial Intermediary System.

18. Each NGO will proceed through the development process at its own pace. Some well-established NGOs that have had satisfactory prior experience with delivery of financial services to beneficiaries may proceed from Stage I to Stage III directly, while others may have to go through the three stages in a systematic manner.

### C. Financing Arrangements

#### 1. Lending, Relending and Onlending Arrangements

19. The proceeds of the Bank loan attributable to the credit component of the Project will be relent to PBs and participating NGOs. The Bank's loan will finance up to 80 per cent of the total cost of each subproject. The PBs or NGOs will provide 10 per cent and the beneficiaries another 10 per cent either in cash, kind or labor. However, the contribution of NGOs toward the cost of subprojects will be reduced to a minimum of 5 per cent if the local NGOs have inadequate financial resources to provide the required 10 per cent. It is anticipated that during the first three years of Project implementation, Bank loan proceeds will be relent to PBs, which will include RBB and NBL under Model A. Other banks as approved by the Government and the Bank may be invited to participate if this proves advantageous with respect to increased disbursement rate, geographical accessibility or beneficiary preference. NGOs and WDD staff will assist in mobilizing beneficiaries to borrow from the PBs by assisting beneficiaries to prepare subloan applications and carrying out credit supervision activities. In the latter part of Project implementation, these proceeds will also be lent to duly selected and accredited NGOs under Model B.

20. The Government and NRB will enter into a suitable administrative arrangement to regulate the terms upon which NRB, as the agent of the Government, will relend the proceeds of the Bank loan attributable to the credit component. NRB will enter into financing agreements with the PBs and with selected and accredited NGOs. Subsidiary loans will be made on the basis of an acceptable pipeline of subprojects, and will bear an annual interest rate of 6 per cent. Repayment periods will vary depending on the nature of the subprojects to be financed, but will not exceed 15 years, inclusive of a grace period of not more than 3 years. As the repayment periods of the subsidiary loans from PBs/NGOs to NRB will exceed in most cases those of the subloans, the PBs/NGOs are expected to recycle the repayments made by beneficiaries either in support of other sub-borrowers or for repeat loans.

21. The financing agreements will specify that the PBs and NGOs will onlend the proceeds of the loans, together with their own funds, to beneficiaries at a minimum of 17 per cent per annum, which is the prevailing commercial bank lending rate in Nepal, to allow an interest spread of at least 11 per cent. This spread is required to cover the high costs of intermediation and supervision of microcredit, provision of bad debts and a small profit margin. In addition, under Model A part of the interest margin will be passed on to NGOs for their services as credit agents to the PBs. Under the ongoing International Fund for Agricultural Development (IFAD) financed PCRW project, the Government is allowing a 13 per cent margin on average to PBs. The PBs and NGOs will bear the credit risk of the subloans. The subloans will be made to women beneficiaries as individuals or as groups. In appropriate cases, individual members of the group will be jointly and severally liable for the repayment obligations of each individual. Further security will not be required except in cases where it is appropriate to create security over assets financed by a subloan.

## 2. Mechanisms for Credit Delivery and Recovery

22. Under the Project, there will be two mechanisms for credit delivery and recovery. In the first mechanism (called Model A), NRB will relend a part of the Bank loan proceeds to the PBs, which will onlend directly to sub-borrowers (women beneficiaries). In the second mechanism (called Model B), NRB will relend a portion of the loan proceeds to NGOs for onlending to sub-borrowers (women beneficiaries) where the NGOs are willing and are experienced in fulfilling the financial services function.

23. The ultimate objective of the Project is to develop alternative channels for delivery of financial services involving NGOs (i.e., Model B). However, since the level of development of NGOs in Nepal is still at an early stage compared with NGOs in other Asian countries, it is necessary in the initial years of the Project to strengthen the selected NGOs in the appropriate areas so that in later years, the Project beneficiaries will be able to obtain financial services either from the PBs (Model A) or from NGOs (Model B). To facilitate the delivery of financial services involving NGOs, the Government has proposed to introduce legislation or regulations to govern the activities of NGOs. The Bank will be kept informed of the proposals. In particular, the Government will, within one year of the effectiveness, adopt a policy including proposals for legislation, to promote the participation of NGOs in the development process. This policy will include measures to simplify the registration procedures for NGOs, to develop a regulatory framework and a specific mechanism to enable NGOs to act as financial intermediaries, to reorient the functions of SWC as a facilitator of the activities of NGOs, and to introduce mechanisms for collaboration between local NGOs and international NGOs.

24. The Government and NRB confirmed to the Mission that, while the existing legal and regulatory framework is undeveloped, there is no impediment to NGOs participating in the Project provided that they are duly registered with the appropriate authorities. In particular, NGOs may act as financial intermediaries after receiving the consent of NRB (acting in its general central banking role as regulator of credit activities). NRB confirmed that such consent had been given to NGOs in the past and that they did not anticipate difficulties in granting consent in the future for the purposes of the Project. However, it is clear that financial intermediation by NGOs would be promoted by the development of a more detailed framework to regulate in the financial activities, including the establishment of systems for streamlined approval and monitoring procedures. The Mission suggested that such measures could be adopted by means of amendments to the Association Registration Act and by regulations made under the Nepal Rastra Bank Act. The Government has agreed that such measures will be adopted before credit is disbursed by NGOs under the Project (although this would of course not affect disbursement of credit by the PBs).

## 3. Credit Delivery and Recovery System Under Model A

25. Under Model A, the WDOs and WWs of MLD, together with local NGOs, will work closely with Project beneficiaries throughout the period of the Project. The involvement of local NGOs will supplement MLD's activities, as it faces personnel and other resource constraints. The WDOs, WWs and NGOs will organize the beneficiaries into cohesive groups and provide them with skills training in cooperation with other agencies/projects. After the beneficiaries have successfully completed the training program, they will be assisted in obtaining credit from the

local offices of the selected PB. Financing agreements acceptable to the Bank will be signed between NRB and the PBs under the Project, and the credit program of the PBs will be funded using the Bank loan proceeds in accordance with these agreements.

26. The PBs will improve their current standards with respect to loan appraisal for loans under the Project as recommended by CBPASS and the World Bank. WDD staff or Stage II NGOs will assist the PBs as credit agents. The WDD staff or NGO will have established a close relationship with the prospective beneficiary through the group formation and training process and will be well placed to assist both the beneficiary with the application process and the PB with appraisal and follow-up. The exact nature of the relationship between the PB and the NGO, including agency and supervision fees or other compensation, if any, will be negotiated between them.

#### 4. Delivery and Recovery System under Model B

##### (a) Phasing of Project Activities

27. During the first three years of the Project, credit will be delivered to women beneficiaries by the PBs under Model A. During the next three years of Project implementation, credit may be delivered to women beneficiaries by both Model A and Model B, subject to approval of the Government and Bank after the Mid-Term Review of the Project.

##### (b) Approval Procedures for NGO Loans

28. The approval procedures for loans to NGOs will be as follows: (i) loans to NGOs up to the amount of NRs 500,000 can be approved by the District Approval Committee; (ii) loans to NGOs up to the amounts of NRs 5,000,000 can be approved by the National Approval Committee; (iii) a decision on the approval of loan requests will be taken up by the Approval Committee concerned within four weeks after submission of the loan request; and (iv) a NGO may receive a repeat loan only after it has disbursed 75 per cent of its immediately preceding loan and has satisfactorily complied with its existing obligations.

##### (c) Financing Agreement

29. The financing agreement to be executed between NRB and the NGO upon approval of the application by the Approval Committee should indicate the relending terms and conditions; the repayment and grace periods; the purpose for which the loan is made; reporting, accounting and auditing requirements; the right of NRB to initiate legal action to enforce compliance with the terms of the agreement; and such other provisions as may be agreed upon by the Government and the Bank.

##### (d) Selection Criteria of NGOs

30. In consultation with WDD and NRB, the NGO Support Unit will select the NGOs that will act as financial intermediaries. The eligibility of NGOs to act as financial intermediaries under the Project will be determined on the basis of two sets of selection criteria. The first will determine whether the NGOs qualify for the institutional support to be provided under the Project. The second will determine whether NGOs can be used to provide credit directly to beneficiaries. The first set of criteria includes the following:



- (i) be registered with the concerned Chief District Office or any other appropriate agency of the Borrower to establish the NGO as a legal entity;
- (ii) have had at least one year of experience in social mobilization or other community development work and a minimum coverage of 100 beneficiaries;
- (iii) have at least two administrative staff and a permanent office to handle the lending program;
- (iv) show high commitment to improve the socioeconomic status of women; and
- (v) have established locally based or district-based operations.

31. After the strengthening phase of at least one year, the performance of the NGOs will be evaluated under the following additional criteria to determine whether they are qualified to act as financial intermediaries:

- (i) key officers and staff of the NGOs have satisfactorily completed training for NGO strengthening under the Project, or have availed of similar assistance provided by other entities;
- (ii) be willing to submit to external financial and administrative spot checking by NRB and the NGO Support Unit;
- (iii) demonstrate capability to perform basic subloan appraisal following the provision of short-term training under the Project;
- (iv) have adequate power under its constitution to borrow and lend money;
- (v) have had some financial service experience through assisting PBs in Project subloan follow-up and supervision and mobilizing beneficiary savings; and
- (vi) have agreed in writing with the PIC regarding arrangements for training of sub-borrowers, including social preparation activities, and savings or capital build-up (CBU) arrangements, including details of the means of raising capital, allowed application of funds and custody and control procedures.

(e) Processing of Subloans from NGOs to Beneficiaries

32. NGOs will make subloans to women beneficiaries who fulfill the following criteria and such other criteria as the Government and the Bank may agree upon the beneficiaries should (i) either belong to a low-income group falling under the Government-defined poverty line, or be able to enhance labor-intensive employment by creating jobs for women belonging to the low-income group; (ii) have completed skills training provided by the Project or by other

projects; (iii) be residents of the area where the subproject is to be undertaken; (iv) have no record of default with any commercial bank or other formal financial institution in Nepal, and (v) be members of SHGs that have initiated savings mobilization activities.

33. A subproject proposal submitted by a beneficiary or a group of beneficiaries should satisfy the following requirements: (i) the subloan request does not exceed NRs 30,000 per sub-borrower for agricultural production credit, NRs 40,000 per sub-borrower for microenterprise credit or NRs 250,000 per sub-borrower for small business credit; (ii) the subproject is technically and financially viable and there are sufficient available raw materials and markets for finished products that its viability is not endangered; (iii) the sub-borrower for such subproject will provide at least 10 per cent of the subproject cost in cash or kind including labor; (iv) the subproject should yield a financial internal rate of return exceeding the cost of capital; and (v) the subproject is labor-intensive and environmentally friendly.

34. To ensure sustainability of the micro-enterprises, NGOs will be allowed to grant repeat loans to the beneficiaries up to the ceilings specified.

35. The onlending agreement to be executed by NGOs and sub-borrowers upon approval of the subloan will include provisions for onlending terms and conditions; the repayment period; the purpose for which the subloan is made; appropriate accounting obligations; CBU obligations; the right of the NGOs to initiate legal action to enforce compliance with the terms of the onlending agreement; and such other provisions as may be agreed upon by the Government, the NGOs and the Bank.

## 5. Savings Mobilization and Credit Guarantee

36. NGOs are expected under the Project to include a savings mobilization component in their programs of assistance to beneficiary groups in addition to any savings program for self-insurance purposes, either through compulsory periodic savings, voluntary savings up to a minimum percentage of the requested loan amount, surplus interest charges or other agreed means. Savings thus mobilized may be in the name of the individual borrowers or the beneficiary group, and should be deposited in the local banks. Accumulated savings or CBU<sup>1/</sup> may be used as sub-borrower contribution, loan collateral, beneficiary loan fund or other agreed upon purpose. Stage III NGOs will agree in writing with the NGO Support Unit regarding savings or CBU arrangements, details of the means of raising capital, interest rates, allowed application of funds, and custody and control procedures. This arrangement will ensure that (i) beneficiaries will be able to repay their loans to NGOs, and (ii) NGOs will be able to contribute at least 5 per cent of the total cost of subprojects (see para. 19).

37. Loans to beneficiaries may be insured with the Credit Guarantee Corporation, with the PBs or NGOs financing the insurance premium cost from the indicated interest spread without further charge to the sub-borrowers. Currently the premium is 0.25 per cent of the outstanding loan balance per quarter. However, the premium for livestock loans is 10 per cent of the outstanding balance with 5 per cent subsidized by the Government. Alternatively or in addition, at the option of the beneficiaries, group savings may be mobilized to finance a fund

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<sup>1/</sup> A surcharge of a minimum of 2 per cent on top of the onlending rate charged by the participating NGOs to subborrowers seems to be justified in order to establish a CBU.

to self-insure the loans of the beneficiaries in the group. This fund would then be an asset of the group and would be managed accordingly by the group. Similarly, livestock loans could be insured through savings mobilized at the group level. In this case, coverage of livestock loans under the Credit Guarantee Corporation scheme may not be required.

#### **D. Beneficiary Participation**

38. The Project was formulated through an extensive consultation process with intended beneficiaries, a number of potential participating NGOs and aid agencies.<sup>1/</sup> The Bank's Guidelines for Incorporation of Social Dimensions in Bank Operations was used in assessing the potential beneficiaries in the Project area. During Project implementation, beneficiary participation will be ensured through the following measures: (i) beneficiary mobilization and awareness raising through group formation; (ii) bottom-up needs assessment and planning process, especially at the district level; (iii) use of NGOs as change agents and delivery channels of services and resources; and (iv) capability building of NGOs and WDD staff to serve target beneficiaries better.

39. Social preparation, i.e., mobilizing beneficiaries and raising awareness for potential socioeconomic development (value-formation) is an essential part of the Project activities. Such interventions are considered prerequisites to any human resource development and investment programs targeting marginal beneficiaries, especially women. Beneficiary needs assessment will be conducted by WDD staff and NGOs through a participatory process. Feedback from beneficiaries will be fully reflected in the design of a package of social service assistance (such as literacy classes) followed by skills and management training for income generation.

40. The involvement of NGOs in Project implementation will enhance beneficiary participation and the bottom-up planning process. Because of their grassroot orientation and focused but flexible approach, NGOs generally possess a comparative advantage to deliver services and resources effectively to intended beneficiaries. The Project has been designed to promote the role of NGOs to complement the community work currently undertaken by Government agencies; and selected NGOs will supplement the channeling of financial resources to meet the demands of women beneficiaries for their income-generating activities.

#### **E. Project Management and Coordination**

##### **1. Project Implementation Committee**

41. The Government will establish a PIC to ensure centralized leadership and close coordination among the Project entities. The establishment of the PIC will be a condition for loan effectiveness. Its tasks and responsibilities will include but not be limited to (i) coordination of the work plans of the Executing Agencies; (ii) liaison with Government line ministries and participating external aid agencies involved in complementary WID and NGO programs, both inside and outside the Project area; (iii) supervision of the appointment and subsequent

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<sup>1/</sup> Consultation meetings with some 40 NGOs and about 15 aid agencies, and extensive field trips and discussions with potential beneficiaries were undertaken during the loan fact-finding and loan appraisal stages.

activities of consultants engaged within the Project; (iv) review of the physical and financial progress of the Project; (v) identification, discussion and resolution of operational constraints; (vi) provision of guidance to the Implementing Agencies on administrative and financial matters when required; and (vii) introduction of any policy changes required by the Government, the WDD Central Advisory Board (CAB) and the Bank.

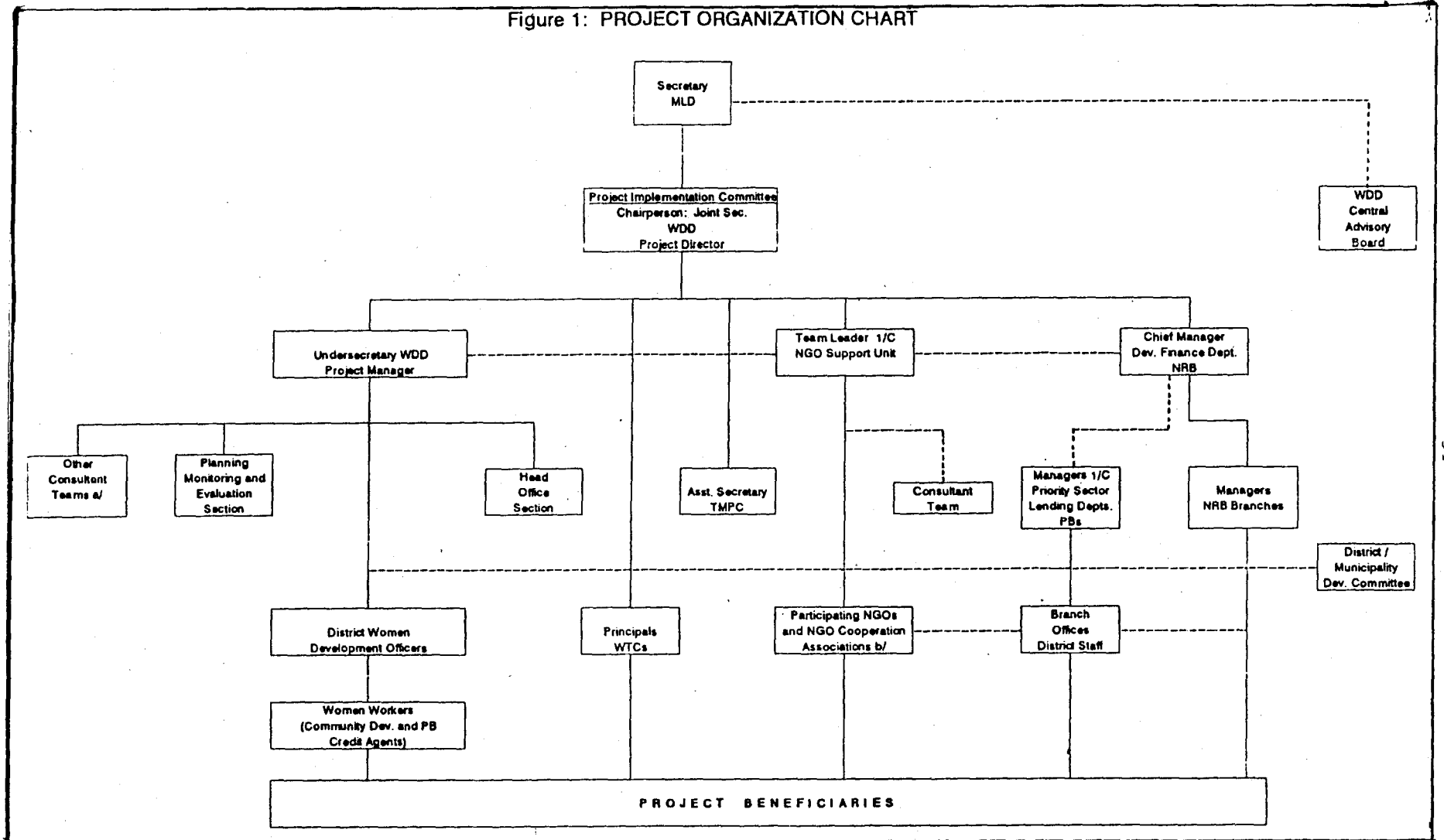
42. The PIC will be chaired by the Joint Secretary of the MLD in charge of WDD, who will serve as overall Project Director. The WDD Undersecretary in charge of special programs, the Chief Manager of the Development Finance Department of NRB, the Team Leader of the NGO Support Unit and representatives from the PBs will serve as members (see Figure 1 for the Project organization chart). The PIC will have powers to co-opt additional members if required. It will meet at least once every quarter. The WDD Undersecretary will be designated as Project Manager, since he will be responsible for day-to-day management and implementation of the Project.

43. At the district and municipal levels, the existing WDOs will coordinate and supervise Project activities in cooperation with the district staff of concerned line agencies, and will liaise with the members of the newly formed District Development Committees. Project activities at the village level will be jointly carried out by WWs and local NGOs. Activities at the municipal level (urban areas) will be implemented by NGOs using support services offered by Training for Rural Gainful Activities (TRUGA) and Small Business Promotion (SBP) projects, and coordinated by WDOs through the Executive Officer of the municipality under MLD.

## 2. WDD Central Advisory Board

44. The CAB within MLD will provide policy guidance and coordination for the Project. CAB is chaired by the Secretary of MLD and is presently composed of representatives from the Ministry of Finance, Ministry of Forestry and Soil Conservation, Ministry of Agriculture, Ministry of Industry, Cottage and Small Industry Development Board, the NRB, Nepal Bank Ltd., RBB and Agricultural Development Bank of Nepal. To cover the needs of the Project adequately, further representatives will be appointed from the National Planning Commission, Ministry of Labor and Social Welfare, Department of Cottage and Small Industries, SWC and the NGO Federation. Agencies directly concerned with the Project will meet as a subcommittee where necessary. CAB will meet as and when necessary or at least twice a year to discuss project matters.

Figure 1: PROJECT ORGANIZATION CHART



Key: — Supervisory Links  
 - - - - - Liaison Links  
 a/ See Appendix 8.  
 b/ See para. 13-16 of Appendix 3.

## TENTATIVE PROJECT IMPLEMENTATION SCHEDULE

PROJECT COMPONENT	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6
<b>I. INSTITUTIONAL SUPPORT TO NGOs</b>						
1. Establishment of PIC	—					
2. Fielding of Consultants	—	—	—	—	—	—
3. Establishment of NGO Support Unit	—					
4. Survey of District NGOs	—	—	—			
5. Selection of NGOs	K	D1	D1	D1	D1	
6. Training of NGO Staff	—	—	—	—	—	
7. Formation of District NGO Associations		D1 D1	D1 D2 D2	D2 D2		
8. Accreditation of NGOs	—	—	—	—	—	
<b>II. GROUP FORMATION AND TRAINING BENEFICIARIES</b>						
1. Fielding of Consultants	—	—	—	—	—	—
2. Training of Trainers	—	—	—	—	—	—
3. Formation of Self-help Groups	—	—	—	—	—	—
4. Skills Training	—	—	—	—	—	—
<b>III. PROVISION OF CREDIT</b>						
1. Establishment of Approval Committees				N1 D1 D2		
2. Credit Delivery						
a. Model A						
b. Model B						
<b>IV. REHABILITATION OF WTC AND TMPC</b>						
1. Detailed Design	—	—	—	—	—	—
2. Civil Works		—	—	—	—	—
3. Procurement of Equipment			—	—	—	—
<b>V. PBME AND REVIEW</b>						
1. Annual and Mid-term Review	A	A	M	A	A	A
2. Socio-Economic Survey	—	—	—	—	—	—

## LEGEND:

- K - KATHMANDU BASED NGOs  
 D1 - DISTRICTS INCLUDED IN FIRST PHASE  
 D2 - DISTRICTS INCLUDED IN SECOND PHASE  
 N - NATIONAL  
 A - ANNUAL  
 M - MID-TERM REVIEW

(Reference in text: page 22, para. 78)

**TERMS OF REFERENCE FOR CONSULTANT SERVICES****PART I: MID-TERM REVIEW****A. Introduction**

1. At the end of the first three years of Project implementation, the Government, the Bank and other lending agencies [particularly Norway and the United Nation Development Fund for Women (UNIFEM)] will carry out a Mid-Term Review of the Project. The Review will assess the progress of Project implementation, the problems and constraints of the Project and the prospects for achieving its objectives as envisaged at appraisal. Based on the findings of the Review, three decisions will have to be made: (i) changes in Project design and implementation to enable the Project staff to improve Project implementation; (ii) expansion of Project activities to other districts and towns included in the Project area; and (iii) initiation of credit delivery and recovery under Model B, i.e., using NGOs as financial intermediaries.

**B. Terms of Reference**

2. The broad terms of reference for the Mid-Term Review will include the following:

- (i) Review all the documents, reports and data related to the Project and its accompanying technical assistance (TA) (JSF-assisted TA for Group Formation and Training of Women Beneficiaries and UNIFEM-assisted TA for Benefit, Monitoring and Evaluation System) as well as the Government's policies and regulations on NGOs.
- (ii) Carry out field visits in the districts and towns included in the first phase of the Project (Dang, Salyan and Phyuthan districts, and Kathmandu, Pokhara/Dumre, and Nepalganj) to assess the progress of the Project and to identify the problems and constraints faced by the Project staff, NGOs and beneficiaries.
- (iii) Assess the performance of Women Development Division (WDD) and NGOs in implementing the group formation and training of women beneficiaries financed by JSF. Identify issues and constraints, and recommend how the procedures and intervention strategy can be made effective in identifying, organizing and training women beneficiaries.
- (iv) Assess the performance of the NGO Support Unit in improving the managerial, technical and financial capabilities of local NGOs for delivering microcredit to women beneficiaries and in assisting WDD staff to implement the Project activities. Identify issues and constraints, and recommend how the procedures and intervention strategy can be made effective.

(Reference in text: page 23, para.78; page 23, para. 81)

- (v) Examine the performance of WDD, Nepal Rastra Bank (NRB) and the NGO Support Unit in the development of alternative mechanisms for delivery and recovery of microcredit involving NGOs. Identify issues and constraints, and recommend how the procedures and the intervention strategy can be made effective for the delivery of microcredit to the target beneficiaries through Model A (using the participating banks) or Model B (using the NGOs).
- (vi) Based on the review of (i) to (v) above, recommend changes in the Project design and implementation with a view to improving the progress of the Project. Taking into account the implementation capacity of WDD, NRB and NGOs and the accomplishments of the Project, recommend whether the Project area should be expanded to nine other districts and two other towns as envisaged at appraisal, and whether the Project should initiate Model B or continue with Model A.

## **PART II: GROUP FORMATION AND TRAINING OF BENEFICIARIES**

### **A. Introduction**

3. While the Project design draws together all agencies currently involved WID activities at the district level, there is limited relevant experience within WDD in the parallel development of Government and NGO WID activities, and in ensuring that curriculum re-orientation is undertaken for both field staff and women beneficiaries to enable WDD efficiently to operate intensive social preparation and income generation activities linked to innovative savings mobilization and credit services within the Project area. It is essential, therefore, that specialist expertise be brought in from the very start of the Project to support WDD in setting up and implementing critical activities, and that institutional strengthening efforts are maintained throughout the implementation period.

4. Because of the importance of the curriculum development and training efforts to WDD and national operations, the specialist team will be based in WDD/Kathmandu but will operate up to 40 per cent of its time in the field.

5. A total of 132 person-months of local consultant services will be required in the following fields of specialization:

	<u>Domestic Consultants</u> (person-months)
1. Institutional Development Specialist	72
2. Planning and Training Specialist	30
3. Project Implementation Advisor	<u>30</u>
Total	<u>132</u>



**B. Objectives of the Consultant Services**

6. The overall objectives of the consultant inputs are to supplement the existing management capabilities of the head office cadre to allow WDD to take on further externally financed responsibilities and to ensure that a more balanced community development strategy is undertaken, concentrating initially on social preparation and group formation, and leading to the provision of community services and the introduction of savings mobilization. Only when groups are operating successfully as viable contact units will efforts be made to promote income-generating activities, and only then for properly appraised subprojects.

**C. Scope of Consultant Services**

7. The scope of the TA will cover:

- (i) coordinating and liaising with all national and regional agencies handling women in development (WID) related activities to ensure that the social preparation, group formation, community service development and eventual income generation promotion systems introduced under the Project match national needs;
- (ii) determining the actual requirements for WDD community development services, the felt needs of target beneficiaries under the Project, and the introduction of planning and implementation systems geared to resolving such issues;
- (iii) coordinating the planning, detailed design and implementation of the rehabilitation and equipping of the Women Training Center (WTC) facilities, and the administration of procurement and disbursement procedures to ensure compliance with Bank requirements;
- (iv) reformulating, designing, testing and evaluating new training curricula for WDD, WTC and NGO staff and for beneficiaries; and introducing methods by which such curricula can be regularly updated;
- (v) organizing and coordinating trainers and enumerators required for the TA;
- (vi) maintaining and causing cooperating agencies to maintain records and accounts adequate to monitor and evaluate the components of the Project;
- (vii) establishing a data base on (a) rural employment opportunities for women and (b) records of individual women beneficiaries of Project training programs; and subsequent follow-up visits and actions taken to link the relevance of the course undertaken to the real extension assistance needs of the women concerned; and
- (viii) carrying out or causing to be carried out required Project reporting functions.

**D. Terms of Reference****1. Institutional Development Specialist/Team Leader**

8. Working under the Undersecretary of WDD and in liaison with the NGO Support Unit, the specialist will:

- (i) liaise with Government ministries, multilateral and bilateral aid agencies and international NGOs based in Nepal, to compile regularly an up-to-date inventory of all WDD projects and programs within the Project area;
- (ii) review all the available reports and information on past projects and innovative programs related to WID in Nepal;
- (iii) assist in preparing annual work plans and strategies for Project implementation and the strengthening of the institutional capacity of WDD and WTCs in the Project area;
- (iv) assist in coordinating the Project activities associated with the concerned Government agencies, the participating banks (PBs), the NGO Support Unit, cooperating NGOs and the consultants recruited for the Project;
- (v) coordinate the necessary planning and implementation activities associated with the refurbishment of WTC and the procurement of budgeted office equipment and vehicles financed under the Institutional Strengthening and Beneficiary Training component;
- (vi) establish an effective management framework for the Project including a comprehensive computer-based system to maintain financial and management reporting systems as required by the Bank and to monitor project performance;
- (vii) establish effective liaison between the Ministry of Local Development (MLD) and all multilateral and bilateral agencies operating WID projects, agricultural extension and social service programs in Nepal to ensure that women's self-help groups (SHGs) receive comprehensive assistance from all agencies;
- (viii) supervise and assist the Planning and Training Specialist in carrying out allotted tasks;
- (ix) provide in-service training and follow-up support for counterpart staff involved in the management of the Project; and
- (x) liaise with the Project Implementation Committee (PIC) and UNIFEM consultants providing benefit monitoring and evaluation (BME) assistance under the Project.

## 2. Planning and Training Specialist

9. Working under the Undersecretary of WDD and the Institutional Development Specialist/Team Leader, the specialist will:

- (i) liaise with the National Planning Commission (NPC) and multilateral and bilateral aid agencies to carry out a review of existing programs and proposed future methodologies to be used in developing realistic village and district development plans to ensure adequate future participation by the rural and urban population in both short-term and longer term planning operations;
- (ii) liaise with NPC officials in developing methodologies for integrating "top-down" national and "grassroot" local elements of the development plans of District Development Committees (DDCs) in the Project area;
- (iii) In conjunction with NPC, MLD staff and individuals with grassroots planning experience, develop methodologies for Women Workers (WWs) and NGOs to identify committed women within rural and urban societies to act as future social mobilizers, planning coordinators and group leaders in their villages; coordinate their awareness training at local centers; and support their subsequent use within the villages to develop roll-over development plans that priorities established needs;
- (iv) carry out a review of perceived training needs for WDD Head Office personnel, Women Development Officers and WWs, and Women Training officers to better match the present development and social service requirements of women in the Project areas;
- (v) prepare an inventory of complementary training programs offered in the Project area, and the individuals trained, and subsequently assess the training needs of rural and urban women targeted as beneficiaries;
- (vi) based on (iv) and (v) above, prepare proposals for the revision of all course curricula within six months from the start-up of the assignment for submission to the PIC and the Bank for comment and approval;
- (vii) prepare detailed curricula for all new and modified courses approved by the PIC and the Bank;
- (viii) pilot test each training program in conjunction with concerned personnel, evaluate effectiveness, make modifications where appropriate and train trainers to be used;
- (ix) draw up, in conjunction with the Project staff, guidelines for training performance to monitor trainer effectiveness and the strengths and weaknesses of the course as perceived by the recipients;

- (x) assist the Training Materials Production Center (TMPC) and other cooperating agencies in the production of appropriate training materials for all training programs to be undertaken under the Project;
- (xi) supervise and coordinate the work of trainers and enumerators engaged under the TA;
- (xii) establish a data base to provide records of individual women beneficiaries having received skills training programs to ensure that follow-ups are undertaken by WDD, cooperating agencies and technical and business support services; and
- (xiii) contribute to Project reporting as required.

3. Project Implementation Advisor

10. Working under the Chief of the ADB Nepal Residence Office and the Undersecretary of WDD, the Project Implementation Advisor will:

- (i) liaise with the Asian Development Bank and the WDD under MLD to carry out a detailed review and supervision of the Project during implementation;
- (ii) review the overall progress of the Project implementation, and update the Project implementation schedule in consultation with WDD and NRB; and prepare recommendations for improving the progress of the Project implementation;
- (iii) review the problems that the Project is encountering or is likely to encounter in its implementation, and work out measures with WDD or NRB to solve these problems;
- (iv) review expenditures on the Project and make realistic estimates of its annual expenditure requirements; and assist WDD in obtaining adequate budget for the Project from the Ministry of Finance;
- (v) identify possible savings or cost overruns that may materialize under the Bank loan, and ascertain the need for reallocation of loan proceeds from one category to another;
- (vi) review the progress of procurement and disbursement and verify, based on comparison of the Bank's and WDD's records, the contracts awarded and commitments and disbursements made;
- (vii) review the performance of the other two consultants financed under this TA as well as the performance of consultants proposed to be financed under a grant from the Government of Norway or other funds intended for the purpose, and identify constraints or problems related to their operation;

- (viii) review compliance by the Government with particular loan covenants and, where there is any noncompliance or delay in compliance, discuss with the Government proposed remedial measures;
- (ix) look into such other matters related to the Project that require the attention of the Bank or the Government; and
- (x) prepare quarterly progress reports for submission to the Bank and the Government.

### **PART III: INSTITUTIONAL SUPPORT TO NGOs**

#### **A. Introduction**

11. The consultant services under the proposed Project will be required to strengthen the managerial, planning, technical and financial capabilities of selected NGOs so that they can provide better services to women beneficiaries and, in a number of special cases, begin to provide credit services to their members. In line with Project phasing, the headquarters of the NGO Support Unit will be established in Kathmandu, but some of the consultants will be based in Tulsipur in Dang district during the first three years. However, throughout the life of the Project, specialists handling NGO credit will be based in Kathmandu, as the majority of their work is expected to involve national NGOs.

12. A total of about 156 person-months of consultant services comprising about 18 person-months of international consultants and about 138 person-months of local consultants will be required in the following fields of specialization:

	<u>International Consultants</u>	<u>Domestic Consultants</u> (person-months)	<u>Total</u>
1. NGO Development Specialist	10	-	10
2. NGO Management Specialist/ Team Leader	-	72	72
3. Training Specialist	-	18	18
4. Financial Analyst/Mktg Spec.	-	24	24
5. Microcredit Specialist	8	-	8
6. NGO Financial Services Spec.	-	24	24
<b>Total</b>	<b><u>18</u></b>	<b><u>138</u></b>	<b><u>156</u></b>

#### **B. Objectives of the Consultant Services**

13. The primary objective of the consultant services is to strengthen the managerial, planning, technical and financial capability of district and village NGOs so that they can provide a broad spectrum of support and development services to women beneficiaries. Particular attention will be given to creating gender awareness and needs analysis in all their planning and

development efforts. TA will be provided to local NGOs through the NGO Support Unit, which will establish the new concept of providing institutional development support directly to emerging or small NGOs at the district level. At the same time it is intended that NGO Cooperation Associations at the district level established with its support will develop into sustainable units in their own right to continue to supply local area NGO support services after Project completion.

14. The consultants will also work with PBs and NRB to develop, introduce, field test and operate new credit initiatives involving specially selected NGOs. Two systems will be introduced involving NGOs as agents for the provision and supervision of PB-sourced credit, and the use of NGOs as direct financial intermediaries between NRB and sub-borrowers.

### **C. Scope of Consultant Services**

15. The scope of the consultant services will cover:

- (i) coordinating and liaising with the SWC and all agencies handling NGO-related activities and projects in Nepal to ensure the adoption of the most appropriate support services systems at the district level;
- (ii) surveying selected districts to identify all viable SHGs and all registered and nonregistered NGOs operating in the Project area; and encouraging them to form informal cooperation associations and methodologies whereby they can best benefit from a shared use of services that will upgrade their individual NGO operations on a self-help basis;
- (iii) determining the exact requirements for institutional strengthening for specific NGOs joining the cooperation associations at the district level, with particular attention being given to financial management;
- (iv) establishing and implementing savings mobilization schemes within the members of NGOs linked to the PBs under the Project;
- (v) working with NRB to develop NGO-supervised and managed credit programs providing loans to individuals and groups of beneficiaries under group guarantee systems linked to the partial use of accrued savings as collateral and/or equity contributions for loans;
- (vi) monitoring NGO credit programs;
- (vii) designing, testing and evaluating new training programs for NGO staff and women beneficiaries to match the real training needs of the specific district;
- (viii) assisting WDD in establishing a data base on rural employment opportunities for women in the Project area with particular reference to the financial viability of such opportunities and their economic and social benefits; and

- (ix) carrying out or causing to be carried out required Project reporting functions.

#### **D. Terms of Reference**

##### **1. NGO Development Specialist**

16. The principal role of the consultant will be to start up the NGO Support Unit and to train the local Team Leader in all administrative and developmental aspects of the Project. Working in liaison with the PIC but as the effective administrator of all NGO institutional development operations, the Specialist will:

- (i) establish the NGO Support Unit and assist/oversee the recruitment of local personnel;
- (ii) liaise with the SWC, international and bilateral aid agencies, and both international and local NGOs; and compile an up-to-date inventory of all NGO projects and programs concerning women's activities within the Project area;
- (iii) collect, compile and evaluate all the available information on existing NGOs involved in WDD in the Project districts and towns;
- (iv) carry out a systematic survey of NGOs in the Project area districts and towns to facilitate their early registration with the Chief District Office and introduce comprehensive methods of ensuring that adequate gender analysis of such analytical data is undertaken;
- (v) plan and implement a publicity program to create awareness of the NGO institutional development services that could be offered to SHGs and NGOs under the Project;
- (vi) in conjunction with counterpart staff, actively promote the concept of establishing NGO cooperation associations at the district level on a phased basis; such associations may be registered as NGOs or act as informal organizations;
- (vii) draw up and finalize outline charters and operating procedures where appropriate for such associations, allowing flexibility in content to reflect differences in perceived levels of cooperation that are attainable in any area;
- (viii) draw up the initial work plans for organizing seminars and training programs for interested and participating NGOs formally to initiate associations, and develop work plans for inter-NGO cooperation;
- (ix) develop evaluation procedures based primarily on the eligibility criteria drawn up by MLD and the Bank, to be used in fixing the level of Project assistance to be given to Stage I NGOs;

- (x) work with the PBs and with saving and credit unions to establish the initial simple savings mobilization programs to be adopted by Stage I NGOs and their members;
- (xi) develop initial systems for strengthening the capabilities of selected Stage I NGOs in their planning of services geared to a participatory approach, particularly involving gender considerations designed to suit local needs;
- (xii) initiate arrangements with the district authorities to ensure that all Project-assisted NGOs also become focal points for the supply of services provided through other complementary programs such as community development and social services;
- (xiii) develop procedures to assist national NGOs in mobilizing additional funding resources from international NGOs and bilateral donors for the purpose of sustaining their efforts in achieving the Project objectives;
- (xiv) supervise and assist consultants and their counterpart staff in carrying out allotted tasks; and
- (xv) develop the initial work planning, reporting and accounting activities required under the NGO component of the Project.

## 2. NGO Management Specialist/Team Leader

17. Working initially under the NGO Development Specialist and eventually as Team Leader for the NGO Institutional Development Component of the Project, the NGO Management Specialist will:

- (i) work with the proposed NGO Support Unit Staff and specialists to establish the NGO Support Unit;
- (ii) assist with initial inventory and survey work to establish the status of NGO activities and operations in the Project area, the planning of work programs and the implementation of Support Unit operations in conjunction with the NGO Development Specialist;
- (iii) work closely with the Training, Financial Analyst/Marketing, Microcredit and NGO Financial Specialists to establish and operate all administrative, accounting, liaison, training, savings mobilization and credit programs developed under the Project;
- (iv) supervise the activities of all consultants and staff involved in NGO Support Unit activities; and
- (v) assist the PIC in the preparation of six-monthly and annual progress reports for submission to the Government, Social Welfare Council (SWC) and the Bank.



### 3. Training Specialist

18. Working under the NGO Development Specialist and the NGO Management Specialist/Team Leader, the consultant will:

- (i) assess the training needs of selected NGOs and draw up schedules of training inputs for NGO staff as required in the areas of accounting, administrative management and participatory planning, taking into account gender-disaggregated needs, employment creation and income generation, appropriate technology, savings and credit management, and BME systems where appropriate;
- (ii) in conjunction with the PIC, other agencies and supporting NGOs, schedule training inputs to match the assessed needs of local NGOs;
- (iii) identify institutional strengthening needs common to a number of NGOs and draw up related action plans, training materials and programs to address such needs in a coordinated manner, using their own trainers whenever possible;
- (iv) assess the availability and effectiveness of short courses offered by training institutions and organizations including NGOs in leadership, management, planning for development, and skills training for Project beneficiaries; and assist NGOs in organizing trainer and beneficiary training;
- (v) in conjunction with other Project staff, design, test and introduce routine training course evaluation procedures to be undertaken by trainers and participants.
- (vi) contribute to staff training and project reporting as required.

### 4. Financial Analyst/Marketing Specialist

19. Working under the NGO Development Specialist and NGO Management Specialist/Team Leader, the consultant will:

- (i) prepare a computer-based accounting system for the operation, management and monitoring of financial performance of the Project;
- (ii) liaise with the SWC in the introduction of standardized single entry accounting systems within local NGOs and double entry systems wherever appropriate, and train the counterpart Accountant both as an operator of the system and as a NGO trainer;
- (iii) cooperate with the Training Specialist in developing accounting training modules for NGO staff;

- (iv) establish computer-based systems for evaluating the financial viability of income-generating activities (potential subprojects) identified by the Project, Training for Rural Gainful Activities (TRUGA) Project, Small Business Promotion Project (SBPP) and the consultant team using simple financial modelling procedures for future use by PBs and NGOs, and train the NGO Support Unit Team Leader and local staff in its utilization;
- (v) develop a system to check the supply and demand related to the production of items under the activities in (iv) above with the appropriate private and public sector institutions and, on the basis of such information recommend attractive enterprises that can be undertaken by NGO serviced beneficiaries; and
- (vi) contribute to staff training and project reporting as required.

#### 5. Microcredit Specialist

20. Working under the NGO Development Specialist and NGO Management Specialist/Team Leader, the consultant will:

- (i) work with WDD, NRB, PBs, savings and credit unions, and the NGO Federation to promote the introduction of savings mobilization programs among all types of Stage I NGOs and their members;
- (ii) develop criteria whereby willing Stage I NGOs can qualify as Stage II NGOs, to be contracted by PBs to act as non-financial intermediaries between credit institutions and new borrowers from within the Project area; and negotiate where feasible on the NGOs' behalf for appropriate fees to be paid by the PBs for such services;
- (iii) work with NRB and the NGO Support Unit staff to develop a fully comprehensive direct NGO credit administration and accounting system backed up with regulations and procedures relating to loan application appraisal, sanctioning, disbursement, supervision and recovery, in addition to establishing with NRB the basic procedures to be used by NGO management to serve NRB-sourced loans, fix borrower on-lending rates, and establish reserves to cover bad and doubtful debt;
- (iv) in conjunction with the Training Specialist, prepare comprehensive NGO staff training modules to cover all aspects of the loan administration system outlined in (iii) above;
- (v) arrange NGO orientation seminars, covering all aspects of the Project's savings and microcredit arrangements;
- (vi) assist staffs of PBs and NGOs in assessing their microcredit plans, identifying weaknesses and providing remedial support as required;

- (vii) draw up a standard reporting format for microcredit operations and monitor compliance in consultation with staffs of PBs and NGOs;
- (viii) devise an appropriate computer-based system for the centralized recording and analysis of monthly credit operations reports;
- (ix) contribute to Project reporting as required; and
- (x) train the local NGO Financial Services Specialist in all aspects of the operation and supervision of the savings and credit programs.

6. NGO Financial Services Specialist

21. Working under the NGO Development Specialist and the NGO Management Specialist/Team Leader, the consultant will:

- (i) act as the local counterpart for the internationally recruited Microcredit Specialist;
- (ii) work with the Microcredit Specialist in planning and developing the savings mobilization and credit programs operating within the Project;
- (iii) act as a principal resource person/trainer for the Project NGO staff and beneficiary trainer training programs;
- (iv) coordinate all NGO savings and credit BME activities under the Project and prepare the necessary reports required by the Team Leader and NRB; and
- (v) monitor the performance of PBs and NGOs in providing microcredit to women beneficiaries.

## FINANCIAL AND ECONOMIC EVALUATION

### **A. Basic Approach and Framework**

1. As provision of microcredit for women is the only component directly related to income-raising activity, the financial and economic evaluation is focused on the financial and economic viability of the subprojects financed by the credit. Using a subloan provided under the Project, women beneficiaries can start income-generating activities such as goat raising, wool spinning and tea shops. However, it is not feasible to identify all possible activities to be financed and to determine the total benefits derived from a mix of such varied activities. Therefore, in this context, the analysis has adopted a practical approach -- to pick representative subprojects, examine their cost and benefit flows, and test their sensitivity. However, the analysis should be regarded as "indicative" rather than comprehensive. A brief economic analysis from the viewpoint of the subproject is also attempted on the basis of the financial analysis.

#### **1. Selection of Subprojects**

2. Eighteen representative subprojects were selected in the light of (i) past experiences with similar projects for women such as the Production Credit for Women (PCRW) project and Small Farmers Development Project (SFDP); (ii) current market conditions and future prospects; and (iii) high degree of representation over similar activities. These subprojects comprise eight activities for agriculture, seven for cottage industry and three for small businesses (see Table 1).

#### **2. Financial Models**

3. To analyze the financial viability, investment models have been developed for each activity taking into account the average business size and mode operated by women beneficiaries, typical investment and running costs, terms and conditions for subloans. The data have been derived from various sources including the Department of Cottage and Village Industries and the commercial banks. They are adjusted to 1992 prices with some modifications. The models are designed to produce net cash flows before and after debt services, Financial Internal Rate of Returns (FIRRs) and some additional indicators for sensitivity analysis.

## **B. Underlying Assumptions for Financial and Economic Analysis**

### **1. Prices**

4. All financial prices will remain unchanged at 1992 constant prices. For foreign costs, an official exchange rate of NRs 42.7 to the dollar is used.<sup>1/</sup> Economic prices of paddy, wheat and fertilizers have been derived from the World Bank forecast for 1995. For other commodities, a standard conversion factor of 0.9 is used, while the economic price of farm labor is valued at 75 (SWR) per cent of the financial value.

### **2. Subloans**

5. The subloan financed covers 90 per cent of the fixed assets and working capital required to start the subproject.<sup>2/</sup> The remaining 10 per cent is to be provided by the sub-borrowers themselves, either in cash or in kind. Sub-borrowers have to pay back the principal and an annual interest of 17 per cent over 1-7 years at equal amount each year. For buffalo raising and many cottage industries, a one-year grace period and longer repayment periods (5-10 years) are applied.

### **3. Cost and Revenue**

6. The investment cycle of the subproject ranges from less than one year (vegetables) to 10 years (small business) depending on the nature of the activities. The investment can be made in both fixed and working capital. In many cases, gradual increases of sales, the relevant increases in raw material costs, and a less flexible change in salaries and overhead costs for the first few years are assumed.

## **C. Subprojects**

### **1. Agricultural Subprojects**

7. Following the experience in PCRW, over 70 per cent of subprojects to be financed under the Project would be for agricultural activities involving livestock production and small-scale vegetable and cash crop production. This is mainly due to the limited access of women to productive land and their relative ease of entry into the above subprojects because of the low technology requirement.

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<sup>1/</sup> At appraisal, the exchange rate for trading through commercial banks was around NRs 47-48 per dollar, which was the weighted average of the official rate and the travellers check rate.

<sup>2/</sup> The loan ceiling from the Bank under the Project is assumed at 80 per cent of the initial investment required. Therefore, an additional 10 per cent must be financed by commercial banks or NGOs.

8. Livestock production would typically be for (i) improved milch buffalo for milk and calf production, (ii) improved goat production, (iii) improved piggery of two sows, and (iv) poultry production with a flock size of 25 birds. Crop production would be for cereal and horticulture crops grown on less than half a hectare of land.

9. The initial investment would be highest for milch buffalo at NRs 17,600 and lowest for cereals in the Hills at less than NRs 1,000, because the former requires the purchase of costly buffalo, while the latter needs only a small amount of money to buy fertilizers and seeds. It is expected that, after appropriate training, women are willing to take credit for these activities because the requirement for skills and initial costs are relatively low. Family labor would be sufficient for these activities. Livestock purchased may be regarded as a security for the loan.

## 2. Processing, Manufacturing and Service Industry

10. The indicative microenterprises expected to be financed under the proposed Project would be mainly in the food processing and fabric-based cottage industries. Other microenterprises identified by the Department of Cottage and Village Industries include the manufacturing of consumer items and subprojects in the services sector.

11. Currently, the fabric-based industries such as wool spinning, rug and carpet weaving, dyeing and sewing are thriving in Nepal because of the strong demand for export and from tourists. Food processing is equally profitable and can be operated by local women using locally produced crops, fruit and machineries. In addition, a number of business opportunities in the service sector exist for women in large cities like Kathmandu. Tea shops and restaurants, grocery stores, laundry services, souvenir shops, etc. could be started by women. It is estimated that the investment costs are lowest in beaten rice and beekeeping at around NRs 7,600, and highest in rug and carpet weaving at over NRs 70,000. Most of these microenterprises are labor intensive and suitable for women. Requiring about 2-8 personnel per business, they contribute to the creation of employment among poor women and improvement in their incomes.

## D. Financial Analysis

12. Under the identified conditions, most subprojects will be financially attractive. The estimated average net annual revenue ranges from NRs 2,600 for beaten rice to NRs 34,000 for carpet weaving (see Table 1). Even after debt service the revenues are all positive. The average revenues after debt service in livestock and vegetable growing are particularly high at around NRs 2,000 and would have a significant impact on women's social and economic status, considering the current poverty line, defined at around NRs 2,500 per person.

13. The FIRR ranges from 23.6 per cent in ginger processing to 61.4 per cent in poultry raising. The benefit-cost ratios are also favorable at around 2.0 for all crop activities. Most of the subprojects will still be financially viable under unfavorable conditions of decreased sales, increased fixed asset costs, increased raw material costs, say by 10 per cent, although some cottage industries that require high fixed investment costs or raw material costs such as ginger processing, sewing and sock knitting are vulnerable to declines in sales.

**E. Economic Analysis**

14. Table 3 shows the Economic Internal Rate of Returns (EIRRs) of individual subprojects calculated on the basis of the financial models and a given set of assumptions stated in the footnote. The EIRRs of subprojects range from 13.2 per cent to 34.5 per cent, suggesting that the selected subprojects are economically justifiable. Low EIRRs in some subprojects may be acceptable because this computation does not include other non-quantifiable benefits or secondary benefits such as training or secondary employment resulting from the subprojects.

**F. Employment Creation and Net Financial Income**

15. At full development, the Project will have a direct impact on (i) the production of foodgrains, vegetables and livestock products; and (ii) the development of cottage and agro-industries. It will foster the entrepreneurial spirit among women and increase their self-reliance. The new jobs created from the enterprises supported through credit under the Project are estimated at 13,800 person-years for self-employment and 11,000 person-years for wage employment, comprising 10,500 person-years in the agriculture sector, 12,300 person-years in the cottage industry sector and 2,000 person-years in the small business sector. The job creation cost will range from \$116 per job in the cottage industry sector to \$250 per job in the small business sector. In economic terms, the credit component of the Project will generate a total net income of about \$4.45 million for its entire economic life, of which agricultural production credit alone will generate a net income of about \$2.11 million.

**Table 1. Financial Models and Estimated FIRR for Typical Subprojects**  
(NRs per Unit)

Activity	Initial Investment			Loan	Annual Gross Revenue	Annual Operating Cost			Annual Net Revenue		FIRR or B. C. ratio		Project Life (years)
	Fixed	Working	Total			Raw Materials	Labor	Total	Before D.S.	After D.S.	Base	Decline in Sales: 10%	
Agriculture													
1 Buffalo	17,600	0	17,600	15,840	11,579	2,316	3,416	5,731	5,847	2,250	47%	29%	7
2 Goats	6,300	500	6,800	6,120	7,208	2,646	1,649	4,295	2,913	1,595	48%	32%	7
3 Piggery	6,200	7,700	13,900	12,510	16,941	11,771	1,041	12,812	4,129	2,389	35%	17%	7
4 Poultry	0	5,700	5,700	5,130	12,040	9,170	780	9,950	2,090	1,785	61%	22%	7
5 Cereals (Terai)	0	4,045	4,045	4,045	11,190	4,097	4,465	8,562	2,628	748	1.80	0.86	2
6 Cereals (Hills)	0	836	836	836	2,323	847	910	1,757	566	283	2.40	1.42	2
7 Vegetables (Terai)	0	3,841	3,841	3,841	4,725	1,550	1,400	2,950	1,775	1,431	2.07	0.93	1
8 Vegetables (Hills)	0	2,737	2,737	2,737	4,125	1,366	1,752	3,118	1,007	1,354	2.13	0.79	1
Cottage Industry													
1 Beaten Rice	6,600	1,000	7,600	6,840	25,700	20,200	2,900	23,100	2,600	395	40%	23%	5
2 Beekeeping	6,600	1,000	7,600	6,840	5,200	200	700	900	4,300	959	59%	48%	5
3 Ginger Processing	24,000	12,000	36,000	32,400	180,000	125,000	44,000	169,000	11,000	2,872	24%	3%	7
4 Sewing	24,000	7,200	31,200	28,080	98,400	7,200	80,400	87,600	10,800	3,800	41%	8%	7
5 Sock Knitting	19,600	8,400	28,000	25,200	98,400	24,000	66,000	90,000	8,400	2,732	33%	10%	7
6 Tea Shop	14,100	11,700	25,800	23,220	180,800	134,400	35,200	169,600	11,200	4,308	41%	17%	7
7 Retail Shop	4,300	21,900	26,200	23,580	329,100	302,500	15,700	318,200	10,900	5,365	49%	34%	7
Small Businesses													
1 Rug Weaving	23,000	39,000	62,000	55,800	250,000	190,000	44,000	234,000	16,000	4,971	31%	15%	7
2 Carpet Weaving	6,600	72,000	78,600	70,740	258,000	164,000	60,000	224,000	34,000	26,772	50%	33%	10
3 Wool Spinning	16,300	60,900	77,200	69,480	237,400	162,500	49,500	212,000	25,400	17,222	36%	23%	10



**Table 2. Investment by Activities and Their Impact**

Activity	Investment per Unit		Total Invest. (\$'000)	Number of Units	Total net Income (\$'000)	Jobs Created (person – years)	Per Unit	Cost per Job Created (\$)
	NRs	\$						
<b>Agriculture</b>	<b>6,815</b>	<b>160</b>	<b>2,548</b>	<b>16,000</b>	<b>3185.9</b>	<b>16,000</b>	<b>1.0</b>	<b>160</b>
1 Buffalo	17,600	412	408	1,000	354.6	1,000	1.0	412
2 Goats	6,800	159	636	4,000	1023.7	4,000	1.0	159
3 Piggery	13,900	326	652	2,000	760.5	2,000	1.0	326
4 Poultry	5,700	133	399	3,000	865.1	3,000	1.0	133
5 Cereals (Terai)	4,045	95	190	2,000	70.1	2,000	1.0	95
6 Cereals (Hills)	836	20	20	1,000	13.3	1,000	1.0	20
7 Vegetables (Terai)	3,841	90	180	2,000	67.0	2,000	1.0	90
8 Vegetables (Hills)	2,737	64	63	1,000	31.7	1,000	1.0	64
<b>Cottage Industry</b>	<b>20,367</b>	<b>477</b>	<b>1,436</b>	<b>3,000</b>	<b>1248.1</b>	<b>12,281</b>	<b>4.1</b>	<b>116</b>
1 Beaten Rice	7,600	178	109	600	26.1	799	1.3	137
2 Beekeeping	7,600	178	109	600	65.7	648	1.1	162
3 Ginger Processing	36,000	843	253	300	135.5	1,809	6.0	141
4 Sewing	31,200	731	219	300	182.0	3,057	10.2	72
5 Sock Knitting	28,000	656	197	300	129.9	2,563	8.5	77
6 Tea Shop	25,800	604	242	400	276.6	2,009	5.0	121
7 Retail Shop	26,200	614	307	500	432.3	1,397	2.8	219
<b>Small Businesses</b>	<b>72,600</b>	<b>1,700</b>	<b>510</b>	<b>300</b>	<b>1090.6</b>	<b>2,054</b>	<b>6.8</b>	<b>250</b>
1 Rug Weaving	62,000	1,452	145	100	76.6	603	6.0	242
2 Woolen Carpet Weaving	78,600	1,841	184	100	619.4	786	7.9	233
3 Raw Wool Spinning	77,200	1,808	181	100	394.6	666	6.7	270
<b>GRAND TOTAL</b>	<b>9,944</b>	<b>233</b>	<b>4,494</b>	<b>19,300</b>	<b>5525.0</b>	<b>30,335</b>	<b>1.6</b>	<b>146</b>

Table 3. Net Cash Flow and Economic Rate of Return by Activity a/

	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20	EIRR
1 Buffalo	-5	-7	-18	-28	-25	57	95	133	146	154	166	94	58	48	40	29	22	15	9	15.6%
2 Goats	-16	-23	-52	-86	-79	186	313	347	371	371	310	179	119	95	87	63	44	30	18	21.5%
3 Piggery	-15	-26	-59	-109	-132	74	197	231	284	320	337	181	105	82	75	57	42	30	21	14.1%
4 Poultry	-7	-9	-20	-32	-25	91	159	187	228	274	301	162	96	76	64	49	36	26	18	24.2%
5 Cereals (Terai)	2	9	21	47	83	108	108	108	108	108	108	108	108	108	71	0	0	0	0	b/
6 Cereals (Hills)	0	2	3	8	13	17	17	17	17	17	17	17	17	17	10	0	0	0	0	b/
7 Vegetables (Terai)	3	5	13	26	40	40	40	40	40	40	40	40	40	40	0	0	0	0	0	b/
8 Vegetables (Hills)	1	2	5	11	16	16	16	16	16	16	16	16	16	16	0	0	0	0	0	b/
9 Beaten Rice	-2	-3	-5	-9	-7	24	39	43	40	21	13	10	8	7	6	4	3	1	0	13.2%
10 Beekeeping	-2	-3	-5	-8	-2	40	59	62	56	30	18	15	12	10	9	6	4	2	0	22.0%
11 Ginger Processing	-6	-15	-23	-20	0	71	119	139	149	145	125	73	46	37	32	24	18	12	8	22.9%
12 Sewing	-5	-12	-14	-2	30	109	163	184	191	178	146	87	57	46	39	29	21	14	9	34.5%
13 Sock Knitting	-5	-11	-15	-8	17	83	130	148	155	147	123	73	47	38	32	24	17	12	7	30.8%
14 Tea Shop	-8	-10	-12	-1	31	107	155	170	179	170	140	79	50	40	34	26	18	12	8	31.8%
15 Retail Shop	-8	-15	-22	-16	13	98	155	181	204	210	191	104	63	50	43	32	23	16	11	26.7%
16 Rug Weaving	-5	-8	-7	-9	2	34	55	63	67	72	64	36	23	18	16	12	9	6	4	20.3%
17 Woolen Carpet Weaving	-7	-9	-6	-4	17	68	96	107	115	131	141	144	150	130	77	49	38	30	22	31.5%
18 Raw Wool Spinning	-8	-12	-11	-14	1	46	70	80	86	100	108	112	118	104	61	39	30	24	18	24.2%
TOTAL	-93	-145	-227	-253	-7	1269	1986	2256	2452	2504	2364	1530	1133	962	696	443	325	230	153	
(excludes crop sector)	-99	-163	-269	-345	-159	1088	1805	2075	2271	2323	2183	1349	952	781	615	443	325	230	153	

a/ EIRRs are calculated on the basis of following assumptions:

Benefits will accrue from subprojects financed by subloans. A phased plan of subloans, which allows modest use of revolving fund by NGOs/PBs, used to derive the net economic cash flow of each year. All the costs and benefits are valued at economic prices.

Prices: Economic prices are derived (i) from IBRD projection for grains and fertilizers, (ii) by multiplying the standard conversion factor (0.9) for others. As for labor cost 0.75 (shadow wage rate) is multiplied

Project life: 20 years. Exchange rate: NRs 42.7 per dollar

General cost: 60% (ratio of credit takers to total trainee) of general Project costs are distributed to subprojects in proportion to their share in total subloans. General costs includes: cost for training, NGO support unit, and general O & M.

b/ Not computable because of one year investment and benefit.